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ABSTRACT

Incorporating field studies and literature reviews, 2 cities and 2 towns in Mississippi and South Carolina were investigated to determine the socioeconomic impact of Southern rural industrialization and to aid the Economic Development Administration (EDA) in developing policy relative to allocation of funds. Visiting each town/city 3 times and employing open-ended interview techniques, interviewing included officials; plant and personnel managers; formal institution representatives; knowledgeables not representing institutions; employed and unemployed industrial workers and unemployed adults lacking industrial experience; and State and Federal agency representatives. Based on the findings, major policy recommendations were: (1) selected small towns found to act as large labor market centers should be included in EDA's growth center development scheme with top priority given to identifying and developing labor force potential and developing employment; (2) if Negroes are to be affected, current industry subsidization schemes should be replaced by labor (wage) subsidies administered at higher than local level; (3) better comprehensive programs and more program coordination is needed in towns receiving EDA assistance; and (4) leadership and planning capability must be improved within centers and funds should be devoted to this within Development District programs. (JC)

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THE INDUSTRIALIZATION OF SOUTHERN RURAL AREAS

A Study of Industry and Federal Assistance in Small Towns with Recommendations for Future Policy

conducted for
the Office of Economic Research,
Economic Development Administration,
U.S. Department of Commerce

by
Abt Associates, Inc.

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TABLE OF CONTENTS

Page
Key to Abbreviations
i Introduction
ii Summary of Conclusions
v Research Methodology

SECTION I: GROWTH CENTER CHARACTERISTICS POSSESSED BY SMALL TOWNS

1 .... Geographic Location of the Town in the Region
4 .... The Manufacturing Center: Economic Base and Location of Industry
19 .... Journey-to-Work and the Size of the Available Labor Force
25 .... The Trading Center
29 .... Migration
32 .... Public Service Provision
36 .... Preliminary Conclusions
37 .... Area Information Structure
39 .... The Political Base for Development
50 .... Leadership
52 .... Growth Center Conclusions

SECTION II: PROBLEMS NOTED REGARDING THE DISTRIBUTION OF GROWTH BENEFITS TO DISADVANTAGED GROUPS

55 .... Unrecorded Work Potential in Fast-Growing Small Cities
61 .... Reasons for Continuing Unemployment and Underemployment
65 .... The Disparity Between Skill Needs and Hiring Standards
72 .... Summary

SECTION III: PUBLIC SERVICE PROVISION

77 .... The Local Government Role
78 .... Industry, Poverty, and Spending Constraints
82 .... Industrial Impact on Service Provision
89 .... Federal Assistance
97 .... Summary

SECTION IV: THE SUBSIDIZATION OF GROWTH CENTERS

101 .... The Market for Industry
105 .... Subsidization as a Policy Instrument
123 .... Conclusions on Location Subsidy Programs
124 .... A Broader Growth-Incentive Concept
128 .... Summary

SECTION V: EDA GOALS, GROWTH CENTERS, AND SMALL TOWNS

131 .... Weaknesses in the Regional Welfare Model
134 .... Economic Development Districts as Conceived-Problems
137 .... Economic Development Districts in Practice--Problems
138 .... The OEDP

SECTION VI: PROGRAM AND POLICY RECOMMENDATIONS

141 .... Policy Emphasis
142 .... EDA Research
143 .... Allocation of EDA Funds to Major Program Elements
143 .... Field-Level Organization and Activities
146 .... Inter-Agency Cooperation At the Local Level
146 .... Inter-Agency Cooperation at the State and County Level
147 .... Selection Criteria for Labor Market Centers

A1 .... Appendix I
A33 .... Appendix II
B1 .... Bibliography

KEY TO ABBREVIATIONS APPEARING IN THE REPORT

ARA = Area Redevelopment Administration, U.S. Department of Commerce

CAP = Community Action Program

CEP = Concentrated Employment Program

DOL = U.S. Department of Labor

EDA = Economic Development Administration, U.S. Department of Commerce

ES = Employment Service, on the State Level

HEW = Department of Health, Education and Welfare

HUD = Department of Housing and Urban Development

JOBS = Job Opportunities in the Business Sector, a Program of the National Alliance of Businessmen and the U.S. Department of Labor

MDTA = Manpower Development and Training Act

MESC = Mississippi Employment Security Commission

Miss. City = The City Studied in Mississippi

Miss. C. County = The County Containing the Mississippi City

Miss. T. County = The County Containing the Mississippi Town

Miss. Town = The Small Town Studied in Mississippi

NSP = Neighborhood Service Program

NYC = Neighborhood Youth Corps

OEDP = Overall Economic Development Program

OEO = Office of Economic Opportunity

PHS = Public Health Service

SBA = Small Business Administration

SCESC = South Carolina Employment Security Commission

S.C. City = The City Studied in South Carolina

S.C. C. County = The County Containing the South Carolina City

S.C. Town = The Small Town Studied in South Carolina

S.C. T. County = The County Containing the South Carolina Small Town

USES = United States Employment Service, U.S. Department of Labor

INTRODUCTION

The funding of this study resulted from the desire of the Economic Development Administration to receive empirical information which would provide guidance regarding the allocation of federal assistance to rural areas. Since **EDA's** programs focus on economic development through industrialization, a general evaluation of the industrialization process in rural areas was requested. The inclusion of field studies in the research design was requested because an explicit goal of the project was to analyze the mechanism by which industrial development takes place, and to observe the impact of this process upon the major problems in rural areas.

EDA 's activity in rural and urban areas takes place within the larger framework of a resource allocation problem which faces most federal agencies-the choice between urban and rural investment. Complicating the problem is the fact that the population needing assistance is to some extent a moving target. Migration from rural to urban areas, a national phenomenon, has assumed its most extreme form in a south-to-north movement of blacks. So long as this huge stream of voluntary migrants left low-paying work in the South for high-paying work in the North no doubts were raised. It was assumed that the move was voluntary, and, therefore, the destination areas must have been preferred for what seem to be better work opportunities, higher incomes, and superior living conditions. Moreover, the observer of living conditions in the South could see with little difficulty that the Negro had a strong motive to leave. The quality of public service, of law enforcement, of schooling, of welfare, and of health service is poorer for the Negro than for the white in the South. Nevertheless, there is doubt over the wisdom of past and future migrations from the rural South. The social disruption caused by the concentration of black migrants in Northern ghettos forces one to inquire whether there is a better way to bring the fruits of American prosperity to its black citizens. The striking postwar growth of industry in the rural South suggests that migration might eventually disappear.

The success of Southern industrial growth makes it necessary to question the need for continued outmigration to the North. Why can't Southern industry provide enough jobs to keep rural migrants in the South? ~~Can the~~ development of Southern industry provide a focus and an alternative to the development of the North? Can the federal government, acting through economic development programs, devise and carry out a rational program for regional development in the South which would meet these goals?

These questions have at times taken the form, then, of an argument between those advocating treating the problem in the ghetto and those advocating investment in the southern regions in order to stem the rural-to-urban flow. If the latter alternative is considered, a further question is raised: in what cities in southern regions should federal assistance be focused, in order to have the greatest impact? Since EDA is in no position to adopt a northern-center-only strategy, it must consider this second question. Regional economists, in response to this scarce resource problem, have proposed several variations of a "growth center" strategy; often minimum city sizes have been suggested, below which cities are less than optimally efficient, and therefore represent less-than-optimum investment environments.

EDA, an agency which has provided public works grants and loans, technical assistance grants, and business loans to cities ranging in size from very large to very small, is vitally involved in this dialogue because it wants to make cost-effective allocations of limited funds.

This investigation of the impact of industrialization in rural areas, then, represents a look into one phase of the over-all problem. This study concentrates only on the needs and experiences of the smaller southern towns; the other two pieces of the puzzle – the regional SMSA and the major northern city--do not fall within the scope of the study, but should be examined in the near future, in order to ascertain how the conditions shown by this study vary in larger northern and southern cities.

SUMMARY OF CONCLUSIONS

The three major findings of this study are:

1. A small town (with population of 5000 to 20,000) having certain characteristics may act as the employment center of a sizable labor market. The functioning of such a town as a labor market center is the prime mechanism for economic growth in some regions, and allows the town to achieve a near-autonomous growth.

2. Although industry has enabled many small towns to grow in terms of population size and total income, disadvantaged groups which are predominantly black have not shared in the benefits of this growth to a satisfactory extent.

3. A "market for industry" exists, in which a few towns with inadequate information about industry tend to offer too high a price to attract industry; industry is not significantly motivated to locate by subsidies which are normally offered, and cannot obtain adequate information on labor market potential, the possession of which can be a prime inducement to locate.

Major policy recommendations based on these findings are:

1. EDA should include, in its "growth center" development scheme, selected small towns which are found to act as large labor market centers. Top priority should then be given to identifying and developing labor force potential, and to developing employment for it.

2. If EDA programs are intended to have an effect on the southern Negro, better comprehensive programs and more program coordination is needed in towns receiving EDA assistance.

3. Present industrial subsidization schemes are inefficient, and should be replaced by labor (wage) subsidies administered at higher than local level.

4. Leadership and planning capability must be improved within such centers, and funds should be devoted to this within Development District programs.

The findings of this report are principally contained in Sections V and VI. Section V presents a critical view of several "growth center" strategies, including the District Center device used by EDA. Section VI presents program and policy recommendations. The analytical findings which lead to these conclusions and recommendations are found at the end of each

Section. *The reader who does not wish to read the entire report, but only the review of conclusions, may proceed after this introduction to read these summary pages 36, 52, 72, 97, 123, and 128, followed by Sections V and VI. A guide to the organization of the report, with references to conclusions reached, follows.*

Section I examines the basic premises of the growth center concept as advanced by the literature on the subject. Since a town should function as something of a growth center in order to upgrade the welfare of its population and the population in a surrounding area, EDA should know whether small towns can in any way be viewed as such centers. Findings from applying these criteria to the two small towns and district centers studied are that some small towns act as important centers for surrounding areas, much as the EDA District Centers do. Of most significance is the ability of certain small towns to act as centers for rural labor markets. Of possible significance is the fact that the small towns were not significantly dependent on either the corresponding district centers nor on the closest SMSA in the region. Contrary to the theoretical view of growth "trickling down" from centers to smaller cities in a region, then, the towns studied had developed quite autonomously by selling a prime resource–labor–and by aggressive salesmanship. Of great importance to this process were found to be a progressive town leadership, a political base conducive to industrialization, and an information system which will adequately inform industry about the labor market.

Section II examines the primary problem in rural areas in EDA's terms: unemployment and underemployment. Section I shows that relatively advanced industry will locate in rural areas; this section analyzes the extent to which industrialization has solved the unemployment problem. The findings are that industry generally employs those workers with the highest skill levels, which entails attracting laborers from surrounding counties (both commuting and in-migrating), from already-located industry, and from households, in addition to the unemployed. This demand for skills is made more difficult for blacks by racial discrimination which exists as well, both in the firms and in local institutions which provide employment services. In addition to skill requirements, which are often set artificially high, and racial discrimination, both of which block the spreading of growth benefits to a disadvantaged population, the process of growth itself is threatened by an information system which records and publicizes unemployment rates which are artificially low. It is shown that a much greater labor force potential exists than local institutions and firms realize.

Given the promise and problems set forth in Section I and II, Section III examines public services and assistance programs as solutions. It is shown that small towns are not administratively equipped to adequately transform the additional income brought by industry into public funds usable for services. Furthermore, industrialization tends to skew a town's spending in the direction of public works spending, using resources which might otherwise be spent on human development. In addition, tax holidays granted to locating firms deprive the town or county of this potential revenue increase for five to ten years. Facing obsolescent revenue-collection procedures and the strain which both industrialization and growth place on public services, the town turns to federal assistance. Traditional ways in which this assistance is delivered do not lead to an equitable distribution of resources, further handicapping the disadvantaged, predominantly black, population.

Section IV surveys the past methods used by local, county, and state government of encouraging the growth of towns, and analyzes the framework within which the industry-solicitation process takes place. It is found that resources have been wasted on competition between towns for industry, and that a location incentive which has been largely unused to date in rural areas--the wage subsidy--would be the most effective encouragement to industrialization, growth, and to the hard-core unemployment problem.

The picture presented by the first four sections, then, is that of a small town which has the capacity to market a sizable labor force and thereby attract industry capable of significantly augmenting area income. The town, while growing, cannot solve the problem of a large disadvantaged, predominantly black, population segment. Local institutions are not structured so that the employability of this segment is upgraded. Meanwhile, blacks migrate to northern cities. A policy which awaits the eventual total outmigration of disadvantaged blacks from southern cities is not acceptable because: assimilation in northern cities is slow, and this adds to the national urban crisis; a large number of poor blacks do not show a propensity to migrate, and unless given jobs promise to remain a blight on the southern landscape; a tendency for blacks to return to the south exacerbates this; industrial firms are increasingly sensitive to the poor image which a town with a large slum area displays; the increasing unrest of remaining blacks could result in violent social crises in many small towns and cities throughout the South.

Having come to these conclusions in Section V, we have presented in Section VI program and policy recommendations for EDA. These include:
Policy: EDA should make a more explicit statement of its goals, to include a commitment to the hard-core unemployed, particularly blacks.
Research: EDA should conduct economic research in the areas of labor market information, job accessibility, and black south-north migration.

Resource Allocation to Program Types: Generally, more technical assistance grants are needed, which will probably involve the shifting of funds from public works activities. Business loans are needed in small towns, but more local ground-work is required to stimulate opportunities.

Technical Assistance programs should be instituted which train leaders in towns and cities in economic and social development; it is also suggested that towns and cities which are selected as centers receive funds which will partially or wholly support a full-time planner.

District Organization: The District Director needs a larger staff, and more research funds, in order to conduct the type of local research and planning that is not now done.

District Activity:

Cooperation with State Agencies: Insofar as possible, EDA and state agencies like the Industrial Development Board and Employment Service should plan and present a common strategy toward industry solicitation. This should entail the use of wage subsidy programs and the elimination of tax incentives on the state level.
Cooperation with local Agencies and Government: EDA should establish a planning framework with local government and important political bodies, within which would be regularly discussed with industry the town's employment problems. The industrial firm and town

should continually attempt to find joint solutions to the employment problem, with the assistance of EDA and federal and state labor institutions.

Cooperation with other Federal Agencies: Since the success of EDA programs often depends on the activities of other federal programs, it is essential that a regular coordination and joint planning occur.

District Centers: It is recommended that the Development District Center concept be expanded to include the designation of other "target centers" in the district, which would be selected small towns which have shown success in becoming centers of labor markets. These centers should receive most EDA funds allocated to the District.

RESEARCH METHODOLOGY

The research decision which was the major determinant of the form which this report has taken was the decision to incorporate field studies into the research design. EDA requested that a number of field studies be combined with a review of relevant literature. It is felt that the findings from the many other studies reviewed have served to strongly support the findings from our own field work.

The research team chose to concentrate the field work in one region, southeastern United States, so that regional difference would not be a factor in analyzing similarities and differences among the few field studies. EDA and the contractor jointly agreed to interpret "rural areas" as a small town (between 5 and 20 thousand population) surrounded by an agricultural hinterland, at least 50 miles from an SMSA, which had undergone rapid industrialization in the last decade. EDA specified the Southeast Coastal Plains region, which had already had a Regional Commission formed under Department of Commerce auspices, and the Mississippi Delta region, for which such a Commission was envisaged. The contractor originally agreed to study three small towns, but later modified this, with EDA's agreement, to a study of two small towns, one in each region, and the corresponding growth center in each region.

The towns and cities chosen are disguised under the names S.C. City, S.C. Town, Miss. City, and Miss. Town. Much of the interview material would be sensitive if it could be ascribed to specific individuals; the uniqueness within the town of those individuals who were interviewed would make anonymity impossible. Furthermore, the value of any lessons learned from these interviews does not depend on identifying the interviewees specifically. For all these reasons, it was thought best not to reveal the actual names of the towns studied. "The Towns" will refer to the two small towns; "the Cities" to the two larger cities.

The major field study technique used was the open-ended interview. Questionnaires were designed, but continually modified and seldom used in the same way twice. Interviewees were encouraged to contribute information and viewpoints which may not have been actively solicited. Interviewees fell into six major groups:

1. Local officials: mayors, city managers, others in city government.
2. Representatives of formal local institutions: School principals, Chamber of Commerce heads, etc.
3. Knowledgeable individuals not representing an official institutional viewpoint: Clergymen, Doctors, Newspaper editors, etc.
4. Plant managers and personnel managers.

5. Employed and unemployed industrial workers and unemployed adults having no industrial experience.
6. Representatives of state and federal agencies active in the area.

Small towns were chosen by:
1. Visiting EDA field representatives in North Carolina, South Carolina, Georgia, and Mississippi, to discuss the speed and extent of industrialization in towns within those states. State Development Boards were also contacted, as well as other research organizations. (East Carolina College, Georgia Tech., Mississippi Research and Development Center.)
2. Screening high growth towns for:
    a. non-proximity to large urban centers
    b. diversity of industry
    c. predicted reception by local citizens
    d. absence of major-growth stimulus other than industry(military base, etc.)
    e. predominantly agricultural periphery

The South Carolina small town was visited first, and used to gain a first-hand knowledge of the small town and industrialization and to shape study methodology. Working together in the field during the year's project were one social psychologist and four economists. Team composition was varied from trip to trip, to encourage the interaction of different viewpoints. Basically, the field trips took place in three stages. The first visit to each community was made to gain an understanding of major community institutions and problems, the major population sub-groups and their living conditions, and to gain an initial impression of the nature of the area's industrialization process. The second visit went into more depth in analyzing the functioning of local government, formal and informal institutions, and the provision of public services and industries. The third visit concentrated on the employment situation, from the points of view of both management and the work force.

The research design utilized has both strengths and weaknesses. Among the strengths are: the ability to focus on the *mechanism* of development, and to analyze how critical decisions in the development process are made; the ability to generate new questions and hypotheses during the course of the study, rather than merely try to validate a limited number of hypotheses adopted in the beginning; and therefore the ability to free the research from preconceived notions and begin fresh with an examination of a system containing four major actor-types: industry, local government, and federal agencies, with a disadvantaged population responding to actions taken by the others.

Weaknesses are: the inability to state with certainty cause and effect relationships; the potential for the four cities being unique cases rather than representative; the inability to gather in-depth data on all topics, because of the expenditure of research funds on field studies and a broad range of questions.

We feel that the advantages of the approach used outweigh the disadvantages, in terms of the goal of this study, which is to evaluate the effectiveness of EDA programs in solving small-town problems. The inability of this research to produce detailed and current migration information is a short-coming; however, a major achievement is the very complete analysis, based on interviews with industry management, of how employment decisions are made, particularly vis-a-vis unskilled and semi-skilled blacks.

SECTION I

GROWTH CENTER CHARACTERISTICS POSSESSED BY SMALL TOWNS

I. INTRODUCTION

Growth centers, as described in the literature and by EDA, are cities with certain economic characteristics by which they are enabled to provide services to a surrounding area. This section will examine the two towns and two district centers studied in the light of these characteristics. If small towns can be looked upon as growth centers in any meaningful sense (and they have not been to date), this would indicate that the provision of federal funds to them should be considered favorably.

Geographic Location of the Town in the Region

The "central place" theorists have depicted an "order of central place" and a hierarchy of cities in which the "size and shape of trade areas are influenced by location relative to metropolitan centers."[1] Two aspects of this analytical approach are interesting with regard to the two small towns studied: one, the predominant economic function of the center, discussed below; the other, the significance of relative vs. absolute population size, and the distance existing between cities and towns.

Viewing the "deep South" from the Mississippi River to the Atlantic Ocean as a single region (ignoring for the moment the Regional Commission distinction between Southeast Coastal Plain and the rest of that area) the territory can be seen to possess a crescent of large urban centers which "contains" most of the region and serves to delineate the deep South from the Ozarks and Appalachia.

These large cities have traditionally acted as transportation terminals through which goods have passed between "northern centers" and the smaller cities within the South, and which have acted as commercial, political, and cultural centers for the region. Thus, Memphis was traditionally the financial and transportation center for the cotton economy in the Mississippi Delta to the south, and Atlanta served as a trading and transportation center of major importance.

The two districts studied fit into the regional geography roughly like this:

Memphis
MISS. TOWN
MISS. CITY
Charlotte
S.C. TOWN
S.C. CITY

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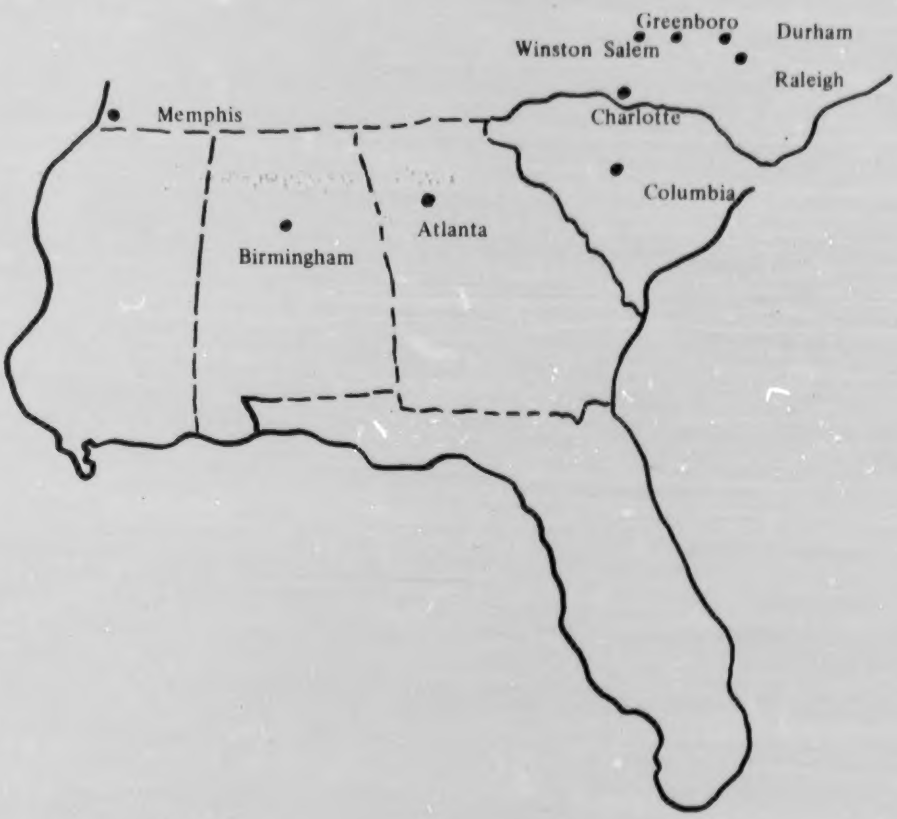
[1] Berry, Brian J., and Pred, Allen, CENTRAL PLACE STUDIES: A BIBLIOGRAPHY OF THEORY AND APPLICATIONS, Philadelphia, Pennsylvania: Regional Science Research Institute, 1961.

See also Berry, Brian J. and Barnum, H. Gardiner, "Aggregate Relations and Elemental Components of Central Place Theory," JOURNAL OF REGIONAL SCIENCE, IV (1962), Berry, Brian J., MARKET CENTERS AND RETAIL DISTRIBUTION, Prentiss-Hall, Englewood Cliffs, New Jersey, 1968; Berry, Brian J., Barnum, H. Gardiner, and Tennant, Robert J., "Retail Location and Consumer Behavior," PAPERS AND PROCEEDINGS OF REGIONAL SCIENCE ASSOCIATION, IX (1962; Berry, Brian J., "Cities as Systems within Systems of Cities," in Friedmann, John and Alonso, William, REGIONAL DEVELOPMENT AND PLANNING, Cambridge: M.I.T. Press, 1964.



Thus, in terms of a hierarchy of cities, Memphis and Charlotte would probably be viewed as second order centers with respect to the first order centers of New York, Detroit, Chicago, and St. Louis. Mississippi and South Carolina Cities would be no more than third or fourth order centers, and Mississippi and South Carolina Towns would probably not even be mentioned in a typology of this kind.

If Memphis and Charlotte, separately, are considered centers which have served to "connect" the North with the South, the distinguishing characteristic possessed by both Mississippi and South Carolina Towns is that both lie on major transportation routes between the regional center and points south - between the "core" and "periphery". Neither small town is endowed with major natural resources; South Carolina Town's river-based water supply is significant, however, and distinguishes it from the immediately surrounding area more so than does the rich farmland of Mississippi Town from the equally rich farmland surrounding it.

The availability and form of transportation network has been unquestionably a prime factor in the cities' development, and in the formation of relationships with the hinterland and with other cities. Three phenomena observed were most instructive. First, two cities had owed their earlier development in part to their riverside location, based on a cotton farming economy which has since dwindled in importance. After the river ceased to be of importance for shipping a primary product, it regained importance for its water supply aspects. In the meantime, an excellent highway network developed which has played a major role in the attraction of highway-oriented industry. In addition to these resources, rail connections are excellent.

In Mississippi, the river that played an important role in Mississippi City's development as a means of shipping its primary product, continues to be an economical means of transport for many of the City's industrial producers. Highways are not as well developed as in South Carolina. Mississippi Town is not on the river, and thus is handicapped by an absence of that mode, combined with road and rail networks which are weakened by long delays at regional transshipment centers.

River and rail transportation have played a much less important role in attracting new industries since 1960 than before. Almost all of the industrial firms which have located in the last decades are primarily users of truck transportation. The technological changes which have radically altered freight movement patterns over the last two decades between America's large cities have had just as much impact on freight movement in smaller towns and rural areas. At the same time, firms which primarily processed raw materials – usually lumber or food stuffs – continued to use rail and water transportation, where available.

Memphis and other large centers at an early date acquired an institutional and physical infrastructure which served a resource-based hinterland. Delta cotton was financed by, and shipped through, Memphis. This infrastructure still exists, and is one of the reasons why a goal of economic efficiency would indicate the wisdom of investment in large cities where scale economies can be achieved. With the above described improvements in transportation, however, most industries are less dependent upon the big city rail networks; financial institutions still dominate the hinterland because little local institutional development has occurred in small town finance.[1] There are no real impediments to local infrastructure of this type developing. Much of the domination of big city over small in this region is historic and now technologically irrelevant. Furthermore, the transportation network which *is* still used is outmoded; one of the most often cited impediments to the development of diversified economic activity in the Mississippi Delta is the time required to clear goods through Memphis. In addition, East-West transportation is extremely inadequate, so that shipments to an East coast market are slow and costly.

This would indicate that the alleged superior efficiency of large urban centers in this region is actually less than stated, that the supposed inefficiency of the smaller towns could be lessened easily, and therefore that the loss in efficiency suffered by placing funds in small rather than much larger cities is not as great as is claimed. As will become clear, we are not saying that larger cities are not more efficient. Investment in smaller towns will be justified on equity and social welfare grounds. The argument *against* investing in small towns, however, has been shown to be not as strong as it has been assumed to be.

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[1] See discussion of "The Trading Center," page 25.

THE MANUFACTURING CENTER: ECONOMIC BASE AND LOCATION OF INDUSTRY

Returning to the growth center literature, the activity of growth center definition has revolved around concepts of manufacturing center and trading center. Traditionally, growth centers have been thought of as manufacturing centers. Small towns and rural areas have been discounted as growth centers, because they were thought to be attracting agricultural, agricultural processing, and resource - extracting economic activities. At best, they might be expected to gain a low-wage textile plant. The four towns studied here are striking, because they violate this generality. The economic growth of each has been caused primarily by the attraction and expansion of non-agricultural, manufacturing activities. Moreover, the manufacturing industries are not resource-oriented. The small towns possess electronics assembly firms, the branch plants of major chemical and pharmaceutical corporations, and firms specializing in the assembly of metal and steel products, as well as the traditional textile plant. Since this study was specifically directed toward the impact of industrialization, a large part of the field research was concerned with an investigation of the manufacturing base. A lengthy discussion of this follows, accompanied by supporting material in the appendices. In a separate discussion below, the trading center aspect will be briefly considered.

The Types of Industry in the Study Areas

A town's industrial growth can come about in a number of ways. Firms already in the town can grow in line with the general growth of the national economy, a not insignificant source of new jobs and income given the rapid expansion of the national economy in the 1960's. Second, the town could gain a greater share of the national employment *within* an industry, whether through the location of new firms or through the superior competitiveness of existing firms. Last of all, the town could enjoy the presence of firms in an industry that is itself growing faster than the national economy. What growth in Southern small towns has occurred over the last two decades has essentially been of the first and second category – in keeping with the experience of the South as a whole.

A number of industrial characteristics are relevant in determining the town's growth potential:

a) Export vs. "Residentiary"
b) Capital vs. Labor Intensive
c) Growth Trends
d) Wage Level Predominant
e) High vs. Non-High Technology

These particular characteristics are listed because they are suspected of being determinants of future city growth, as well as explanations of past growth. Briefly, the reasoning is:

1. An industry exporting from the area is responsive to a large national market, and is thus not dependent on local purchases. It can thus grow much faster than the local economic or population base. At the same time, the industry is vulnerable to cyclical movements of the national or regional economy. The commitment of the Federal Government in the 1960's to use Keynesian fiscal/monetary policy to dampen cyclical movements has been a major aid to the growth of depressed areas.

2. It is generally felt that the more capital-intensive the firm, the higher will tend to be the wages due to a higher average product per worker. On the other hand, the more labor intensive, the greater the contribution to employment in the area, with more jobs per dollar invested than in other, less labor intensive firms.

3. Any kind of job is preferrable to no job, but it is desirable as well for a city to attract firms in industries which will grow in market demand for the product. Thus, to the extent that the firms export from the area, the area will grow somewhat proportionately to the demand for the "growth industry" products.

4. The higher the wages paid by the firm, the more the income (and presumably the welfare) of the area is increased, both directly and through the multiplier.

5. A "high-technology" industry is assumed to involve both higher wage levels (discussed separately below), and implicit upgrading of local skills, and a provision for upward mobility for the workers who can acquire the educational requirements (as opposed to "dead-end" occupations). At the same time, given the low education levels in depressed areas, a high technology firm might well have to import much of its labor from outside the area.

When a firm branches into southern rural areas, it brings with it the capital-labor ratio, type of machinery, operating procedures, labor mix and managerial policies that it had used at its previous location.

The capital-labor mix of the firm will vary greatly depending on the product of the firm and the current market prices of the factors the firm requires for production. The nature of the capital-labor ratio in turn affects the firm's impact upon the local economy. First, the higher the capital-labor ratio within an industry, the greater tends to be the productivity of a worker. In theory, such productivity in a perfectly competitive market would be reflected in lower product prices. In fact, however, high capital-labor ratios are often associated with firms with partially oligopolistic positions within their markets and thus some command over the prices of their product. Such firms can be forced, if labor is organized, to divert the higher productivity gains from profits to wages. Second, industries with high capital-labor ratios also tend to be employers of relatively higher skills than other industries. The recipients of such jobs are likely to be the better educated and skilled members of the labor force. Third, in the current U.S. economy, the growth industries and the more successfully competitive firms in all industries have tended to be industries with relatively high capital-labor ratios. Thus, the higher the ratio, the more likely that the firm or its industry will be a source of growth over time for the local economy. Fourth, as a result of the previous pattern of growth and/or successful competition, the firms with the means to secure the best management personnel have tended to be firms with relatively high capital - labor ratios. Since the profitability of a company and thus its ability to pay higher wages and provide stable and increasing employment is as much dependent on the acumen of management as upon the productivity of workers, good management in a firm is as important an asset to the local economy as the number of jobs the firm initially provides. Good management can keep abreast of technological innovation, implement sophisticated administrative techniques, and make the right sales and advertising decisions so that productivity and profits will be increased. Fifth, firms with high capital - labor ratios, especially if the capital component is fixed stock, tend to be more location - tied. The town doesn't have the anxiety that the firm is likely to pick up and leave during the night if a better location appears.

Industry Characteristics of Firms Interviewed

The industry characteristics of the firms in the towns surveyed are summarized in Tables 1 - 4. Generally, the firms *interviewed* had higher investments per workers and higher average wage rates than the set of *all* industries within the towns. The firms interviewed were representative of either the chief industries within the towns, or the kinds of industries which had been coming into the towns in recent years.

The analysis that follows is based on national data and refers to industry types, on a 4 digit SIC code basis. It does not then provide information on individual firms, but rather presents information on practices existing in their national industries, in 1962; (with the exception of the comments on exporting from the region).

Export vs. Residentiary Firms

Overwhelmingly, the firms interviewed were selling the majority of their products *outside* the area and outside the region. Only two firms were producing for a regional market; the rest were producing for a national market. Thus, when a national corporation establishes a plant in these regions - contrary to the common belief - it is not necessarily decentralizing production for a particular market to save transport costs. The branch firms which located in our four towns specialized in particular lines of production for their national corporations, but did so for all markets served by the corporation. The location was motivated by labor costs, not market size.

Capital vs. Labor Intensive

It is apparent from Table 1 that the majority of plants, and of employment in plants, falls within the "medium" category. Considering that this "medium" category may be less meaningful than the extremes, it may be significant to note that in all cases but South Carolina Town, the "high" percentages are greater than the "low," showing a relatively high capital intensity. (S.C. Town has a high proportion of firms in the textile industry.)

Labor Intensity

In examining labor intensity, there is a less clear pattern. Referring to the total number of plants interviewed, the labor intensity varies substantially from city to city. The only generalization possible seems to be that the firms examined were not consistently highly labor-intensive, as southern industry was not too long ago thought of being.

Growth Trends

It is seen from Table 3 that there *are* high-growth industries locating in smaller towns. The higher figures reflect the presence of industry-types not, in fact, generally expected to locate in smaller cities and rural areas: in S.C. City, chemicals; in Miss. Town, pharmaceuticals.

Table I-1

Percent of Firms and of Employment in Firms, in Areas Studied, (1968) in High, Medium, and Low Investment Per Worker Industrial Categories

	Total Number of Firms	Percent Distribution			Total	Total Employment	Percent Distribution			Total
		H	M	L			H	M	L	
S.C. Town	18	17	50	33	100	2389	15	53	32	100
Rest of County	24	17	42	41	100	1666	3	47	50	100
Total County	42	17	45	38	100	4055	10	50	40	100
Neighboring County	31	29	52	19	100	5245	12	76	12	100
Total Labor Market Area	73	22	48	30	100	9300	11	65	24	100
S.C. City	52	27	54	19	100	6402	20	58	22	100
Rest of County	29	17	59	24	100	4616	12	61	27	100
Total County	81	23	56	21	100	11018	12	74	14	100
Neighboring County	37	30	43	27	100	7597	20	68	12	100
Total Labor Market Area	118	26	56	18	100	18615	26	63	11	100
Miss. Town	17	29	71	0	100	1376	37	63	0	100
Rest of County	5	40	20	40	100	385	17	13	70	100
Total County	22	32	59	9	100	1761	33	52	15	100
Miss. City	51	37	43	20	100	4273	20	43	37	100
Rest of County	10	30	50	20	100	444	21	53	26	100
Total County	61	37	44	19	100	4717	20	44	36	100

H = Investment over $7500/Employee; M = $3500 - $7500; L = Less than $3500

A similar tabulation for firms interviewed can be found in Appendix I. Generally, the set of interviewed firms is more capital-intensive in each town using employment as a base, than is the set of all firms.

Source: Area Redevelopment Administration industrial characteristics applied to all firms located in areas studied. Area Redevelopment Administration, U.S. Department of Commerce, GROWTH AND LABOR FORCE CHARACTERISTICS OF MANUFACTURING INDUSTRIES, Washington: GPO, 1964

Table I-2

Percent of Firms and of Employment in Firms, in Areas Studied, (1968) in High, Medium, and Low Labor Intensity Industrial Categories

	Total No.	Percent Distribution				Total	Percent Distribution			
	of Firms	H	M	L	Total	Employment	H	M	L	Total
S.C. Town	18	12	63	25	100	2389	11	78	11	100
Rest of County	24	22	56	22	100	1666	12	78	10	100
Total County	42	17	59	24	100	4055	9	72	19	100
Neighboring County	31	13	52	35	100	5245	7	69	24	100
Total Labor Market Area	73	15	56	29	100	9300	9	66	25	100
S.C. City	52	19	60	21	100	6402	39	37	24	100
Rest of County	29	14	55	31	100	4616	9	71	20	100
Total County	81	17	58	25	100	11018	27	51	22	100
Neighboring County	37	30	43	27	100	7597	20	68	12	100
Total Labor Market Area	118	22	53	25	100	18615	24	58	18	100
Miss. Town	17	52	24	24	100	1376	26	39	35	100
Rest of County	5	40	20	40	100	385	28	55	17	100
Total County	22	50	22	28	100	1761	27	43	30	100
Miss.City	51	37	33	30	100	4273	20	58	22	100
Rest of County	10	50	20	30	100	444	62	5	33	100
Total County	61	39	31	30	100	4717	23	53	24	100

H = Labor costs are over 30% of total costs; M - 20-30%; L = Under 20%

A similar tabulation for firms interviewed can be found in Appendix I. No clear pattern emerges as to differences between the sets of all firms and interviewed firms using employment as a base. The set of interviewed firms are more labor intensive in S.C. City, less labor intensive in both Miss. towns, and about the same in S.C. Town as the set of all firms.

Source: Area Redevelopment Administration industrial characteristics applied to all firms located in areas studied. Area Redevelopment Administration, U.S. Department of Commerce, GROWTH AND LABOR FORCE CHARACTERISTICS OF MANUFACTURING INDUSTRIES, Washington: GPO, 1964

Table I-3

Percent of Firms and of Employment in Firms, in Areas Studied, (1968) in High, Medium, and Low Growth Experience Industrial Categories

	Total No. of Firms	Percent Distribution					Total Employment	Percent Distribution				
		H	M	S	D	Total		H	M	S	D	Total
S.C. Town	18	20	47	27	6	100	2389	26	25	45	4	100
Rest of County	24	26	21	37	16	100	1666	67	3	18	12	100
Total County	42	24	32	32	12	100	4055	42	16	34	8	100
Neighboring County	31	14	41	36	9	100	5245	5	34	59	2	100
Total Labor Market Area	73	20	36	34	10	100	9300	31	22	41	6	100
S.C. City	52	31	20	36	13	100	6402	39	15	40	6	100
Rest of County	29	12	17	42	29	100	4616	10	1	55	34	100
Total County	81	24	19	38	19	100	11018	23	7	48	22	100
Neighboring County	37	28	19	28	25	100	7597	56	7	25	12	100
Total Labor Market Area	118	25	19	35	21	100	18615	37	7	38	18	100
Miss. Town	17	43	7	50	0	100	1376	52	1	47	0	100
Rest of County	5	25	25	0	50	100	385	16	63	0	21	100
Total County	22	39	11	39	11	100	1761	45	13	37	5	100
Miss. City	51	31	12	44	13	100	4273	30	12	53	5	100
Rest of County	10	25	0	63	12	100	444	9	0	89	2	100
Total County	61	30	10	47	13	100	4717	28	11	56	5	100

H = 1962/1947 ratio for value added by industry exceeds by over 110% the ratio for all manufacturing; M – ratio = 85-110%; S = ratio = 51-85%; D = ratio = less than 50%

A similar tabulation for firms interviewed can be found in Appendix I. No clear pattern emerges as to differences between the sets of all firms and interviewed firms, using employment as a base. The set of interviewed firms has a poorer growth record in S.C. Town and Miss. City and a better growth record in S.C. City and Miss. Town than the set of all firms.

Source: Area Redevelopment Administration industrial characteristics applied to all firms located in areas studied. Area Redevelopment Administration, U.S. Department of Commerce, GROWTH AND LABOR FORCE CHARACTERISTICS OF MANUFACTURING INDUSTRIES, Washington: GPO, 1964

Table I-4

Percent of Firms and of Employment in Firms, in Areas Studied, (1968) in High, Medium, and Low Average Wage Rate Industrial Categories

	Total No. of Firms	Percent Distribution				Total Employment	Percent Distribution			
		H	M	L	Total		H	M	L	Total
S.C. Town	18	11	39	50	100	2389	5	19	76	100
Rest of County	24	8	25	67	100	1666	2	4	94	100
Total County	42	9	31	60	100	4055	3	13	84	100
Neighboring County	31	13	42	45	100	5245	4	47	49	100
Total Labor Market Area	73	11	36	53	100	9300	4	32	64	100
S.C. City	52	8	50	42	100	6402	28	19	53	100
Rest of County	29	7	21	72	100	4616	0	9	91	100
Total County	81	7	40	53	100	11018	16	25	59	100
Neighboring County	37	16	41	43	100	7597	8	49	43	100
Total Labor Market Area	118	10	40	50	100	18615	13	29	58	100
Miss. Town	17	35	47	18	100	1376	7	90	3	100
Rest of County	5	20	60	20	100	385	14	31	55	100
Total County	22	32	50	18	100	1761	9	77	14	100
Miss. City	51	22	47	31	100	4273	11	49	40	100
Rest of County	10	10	50	40	100	444	1	39	60	100
Total County	61	19	47	34	100	4717	11	49	40	100

H = Over $2.75/hour; M = $2.00 - 2.75/ hour; L = $2.00/hour

A similar tabulation for firms interviewed can be found in Appendix I. Generally, the set of interviewed firms had higher average wage rates than the set of all firms.

Source: Area Redevelopment Administration industrial characteristics applied to all firms located in areas studied. Area Redevelopment Administration, U.S. Department of Commerce, GROWTH AND LABOR FORCE CHARACTERISTICS OF MANUFACTURING INDUSTRIES, Washington: GPO, 1964

There are several reasons why the existence of industries with lower historical growth rates should not necessarily mean that the town has little chance of growing. The first and most obvious reason is that the past growth trend does not necessarily determine the future trend (the textile industry is undergoing rapid technological change.) Second, the area may have a comparative advantage in resources which the firm needs, and therefore, regardless of growth rate in markets, an increasing share of production for the market may be generated by the town. Third, this predominant industry may cause higher growth firms to enter, through the labor force which it has prepared, or through input or output linkages. The textile industry in S.C. Town is a good example. It is by far the town's largest employer-type, with 4 firms at the time of the study (another has entered since). Large amounts of water and labor have been the prime attractions. A second generation of smaller firms have been stimulated which are in turn providing employment and income in the community. These include an in-plant food supply firm, and a number of manufacturers of items like draperies, which purchase from the textile mills.

Wage Rate

Table 4, like the rest, draws from *national* data on the *type* of industry surveyed. It shows that the types of industry predominant in the four cities studied were neither extremely low-wage nor high-wage industries, with the exception of S.C. Town, where the impact of textiles again appears. Since this statement, however, is made about these industries on the basis of their *national* record, this is not to say that many of these industries which pay medium to high wages nationally may not be paying lower wages at their southern plants.

Interviews with the firms produced some data on their wage practices, although complete information on wage structures could not be obtained. From the information obtainable, the following points can be made: In the two Towns, production workers had little to hope for in terms of income gains even if their skills were upgraded. In the largest firms in each of the two Towns, the top wage rate to which the work force, 70% of whom had high school degrees in both cases, could aspire was $2.40 and $2.20 an hour, respectively: Those firms were regarded by the general laboring population as presenting the best employment opportunities in the town. In Miss. Town, the *other* two large employers in the town had top wage rates of $2,20 and $2.00 an hour respectively, the latter firm being in a metals-working industry. Firms in S.C. City were offering $2.80 as the top rate for the same skills. The average wage rate at the biggest employer in S.C. Town was $1.95. Top rates at other firms in the town ran from $1.80 (cut and sew) to $2.25 (textile) to $2.40 (textile). In keeping with the significant trend recently documented by Victor Fuchs[1] for all city sizes, S.C. City and Miss. City as larger cities had far higher rates on the average than their respective Towns. The starting rate at firms in the Towns was inevitably the minimum wage, $1.60/hr. In both cities, many of the larger employers had starting rates of $1.80/hr. Top rates in city firms ran usually from $2.80 to $3.20 (most of the major S.C. City firms) to $3.60 (metal working firms in Miss.). In Miss. City, the disparity between top rates among firms was great. Timber product firms had top rates of $2.20 and $2.60/hr. Metal-working firms ranged from $2.40 to $3.60/hr. in their top rates. On the other hand, cut-and-sew and other labor-intensive firms hiring primarily women offered no higher rates in the Cities than in the Towns.

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[1] Fuchs, Victor R.,"Differential in Hourly Earnings by Region and City Size, 1959" National Bureau of Economic Research, Occasional Paper No. 101, 1967

The wage for 50 - 70% of their work forces was the $1.60 minimum wage, and top rates were about $1.80/hr.

Even if a worker could potentially earn a high wage – and most firms did not offer that potential -- his chances of actually earning that wage were contingent to some extent on the job structure of the firm's employment, i.e. how many top-paying jobs were available in the plant. To measure this to some extent, the percentage of all production jobs which were classified as for foremen and craftsmen was estimated for each plant that gave raw breakdowns of its job structure. The percentages for all firms in each of the cities, excluding cut-and-sew firms, was as follows:

S.C. Town	48, 11, 9, 8, 6, would not say
S.C. City	45, 19, 12, 2, would not say
Miss. Town	18, 11, 9, 6
Miss. City	84, 33, 32, 29, 29, 21, 19, 16

As another measure of upgrading opportunities, the ratio of the total of managerial, technical, production foremen and craftsman jobs to operative-unskilled production jobs was estimated. Since in some firms, foremen on the assembly line were at times upgraded into lower - and middle - level white collar managers, this ratio measures the maximum upgrading potential of the firm. It also measures the quality of jobs in the firm's employment structure as they would appear to a recent high school graduate.

S.C. Town:	19, 12, 7, 3, 3, 1, would not say (1)
S.C. City:	20, 13, 3, 1, 1, would not say (1)
Miss. Town:	3, 3, 1, 0, 0
Miss. City:	12, 10, 10, 6, 6, 2, 2, 1, 0

High vs. Low Technology

There is a noticeable and universally - recognized shortage of highly trained labor and technicians in the areas surveyed. It is no surprise, therefore, that there are *relatively* few high-technology - process firms in the areas, with some interesting exceptions.

Interestingly, few managers interviewed perceived great flexibility in substituting capital for labor in response to changes in labor costs. This perception was quite contrary to their firm's recent experience, however. This experience of substitution is important, since the minimum wage has been frequently and significantly increased over the last decade, and since some commentators have claimed that automation and the cybernetic revolution have been drastically increasing the skill levels required for modern industrial employment, thereby adding to the difficulty of employing the rural poor. Of the 28 firms interviewed, some 12 or 43% of the firms (representing about 62% of the total employment of the interviewed firms) reported an upgrading of skill needs during the last eight years. Three firms reported labor - displacing automation over the past three years. Two of the firms estimated that 75 and 30 jobs respectively were automated out of existence. In both cases, the cause for the switch was cited as the increase in the minimum wage. Three firms reported plans for future labor - displacing automation affecting between 75 and 100 jobs. Three of a total of five firms reporting past or future job - displacing automation were in timber - related industries, characterized by a relatively unskilled labor force. Nine other firms undergoing change were replacing existing machinery with better machinery rather than substituting machinery for labor. In each of those firms, current production workers were upgraded to run the new machinery; no difficulties in retraining were reported.[1]

Comparisons Among Locations

Aside from this analysis of what prospects may exist for all four cities in general, it is instructive to note what *differences* exist between states, between each town and its rural hinterland, and between the bigger and smaller towns (i.e. the Cities and the Towns.)

Tables 1 - 4 have shown the *industry characteristics* of the firms in the towns, their county hinterlands, and in the case of South Carolina - where major employment opportunities exist nearby, but in another county - neighboring counties. The importance of the industry characteristics for the employment opportunities confronting the work force is this: The higher the *past* growth rate and the higher the labor - intensity, the more likely that the firm (in fact the industry) will provide a larger number of jobs. The higher is past growth, the higher are average wages; the higher investment per worker, the more likely that the jobs provided by the firm will be "good jobs", i.e. jobs with higher and/or increasing pay. As can be seen in Tables 1 to 4, *industries* represented by firms in Mississippi seem to have better long term growth records, higher investment per worker, higher labor - intensity, and higher wages than firms in South Carolina. In terms of *industry characteristics* alone, the firms which have come to Mississippi are more suited to filling EDA's objectives in the area than are the firms which have come to South Carolina. (This does *not* consider firm behavior within industries.)

In terms of the urban - rural split, the firms in all four places have better growth, higher investment, and higher wages than those in their rural hinterlands. Such findings illustrate why laborers in rural areas might well view the four towns as "growth centers" or centers of the best employment opportunities in their areas even though the four towns vary widely in size. Interestingly, there is a difference between the two states in the urban versus rural pattern concerning labor - intensity. In Mississippi, the hinterlands have the more labor - intensive industry, while in South Carolina, the cities do. Ceterus paribus, the South Carolina cities thus can function as growth centers in their areas with a slight advantage relative to the Miss. cities, where the number of jobs may be slightly low given the industrial base, even though the jobs which are available would be, industry wide, of higher quality.

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[1] Indeed, one of the larger metals working firms reported that the impact of technology in his industry had been essentially to raise the skill requirements of what had been the higher skilled workers, while lowering even further the skill needs of the average machine operative.

Interestingly, two very large employers with a working force of more than 600 each reported an extensive upgrading of production worker skill requirements due to the institution of sophisticated quality and management control systems. Prior to the system, the production workers merely performed manual operations amidst the machines. After the system, workers had to count and record on paper every few hours their production rates, the reasons why machines broke or slowed down, etc. Educational standards were being raised in the firm's hiring policies not because of the use of sophisticated machinery, but because of the need for the worker to keep up the paperwork demanded by modern management systems. This impact of technology has received little attention to date from those interested in unemployment and labor.

When the smaller Towns are compared with the larger Cities as to capability of functioning as growth centers, state differences again emerge. Both Towns demonstrate better long run past growth in the industries of their firms. In South Carolina, the City's firms are in industries with higher wages, investment per worker, and labor - intensity than are the Town's firms - in keeping with the belief that the Cities are sources of better jobs than the Towns. In Mississippi, however, the opposite is the case. The Town's firms have higher wages, higher investment, and higher labor - intensities, as industry characteristics, than do the City's firms. Thus, the Town in Mississippi is more efficient as a growth center in comparison with its neighboring City, than is the Town in South Carolina as compared to its City.

Changing Trends in Location

There are a series of national trends in the locational pattern of industry which affect the smaller southern towns and their rural hinterlands. First of all, there is a sixty-year old trend toward regional decentralization out of the Northeast, where almost two-thirds of the nation's manufacturing labor force was still located as of 1960, to the South and West.[1] Second, there is a thirty year trend toward local decentralization out of the large central cities.[2] Originally, manufacturing plants located in large cities in order to enjoy the large labor force, local access to materials and services, and efficient inter-city transportation facilities available there.[3] Autos and trucks have made decentralized location feasible in recent years, while traffic congestion and premium central city land costs may be making decentralization desirable. Most decentralizing firms have moved to the suburbs or periphery of their original urban location. Some, however, have favored smaller industrialized areas and even rural towns. Coupled with the increased dispersion within industrialized areas, the overall trend favored increased concentration of industry in the major industrialized areas, whether Northeast or South, as compared to secondary industrial areas. A third trend focused on the structure of industry rather than shifts in location. This trend consists of increasing market - orientation in the location decisions of the firms. The trend results partly from the greater growth of market - oriented industries (manufacturing and especially consumer - goods - producing firms) in the national economy relative to resource - oriented industries. When regional markets surpass the threshhold of size permitting economical operations, parent companies erect branch plants for that market. Once one company in an industry branches, competitors are often forced to follow, lest the regional market be lost. The trend also partly results from the decreasing importance of raw materials in the production processes of most plants. This decline in importance stems from technological and taste changes which produced a relative increase in processing costs and the decline in transportation long-haul costs generally.

The impact of these trends upon the smaller towns and their rural hinterlands has been mixed. The decentralization of industry has pushed industry in the regional direction of the towns. The local decentralization or dispersion of industry has worked to the advantage of those towns near large industrial cities. The increasing market orientation of industry has pushed industry in the regional direction of the towns, but has worked against the towns by giving incentives to industry to locate in the larger cities of the towns' regions and sub-regions.

Small towns in rural areas have essentially two assets which their large neighboring cities may lack: raw materials (whether food products, timber, chemicals, etc.) and labor surplus. Only the latter asset has much effectiveness in attracting industry to the town and away from larger cities in the same state or region. Good transport connections, plentiful water, and cheap electricity are necessary facilitating assets, but are not sufficient to recommend the towns over their larger rivals to industries. The obvious exception to this statement lies in an extractive industry such as wood products.

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[1] Perloff, Harvey S., Dunn, Edgar S., Lampard, E.E., and Muth, R.F., REGIONS, RESOURCES AND ECONOMIC GROWTH, Resources for the Future, Johns Hopkins Press, 1960

[2] Creamer, Daniel, CHANGING LOCATION OF MANUFACTURING EMPLOYMENT, New York: National Industrial Conference Board, 1963

[3] There recently has been debate as to whether the case of inter-or intra-city transportation was the key factor in central city location. Firms could locate in suburbia and still be on inter-city rail lines in the 19th century. Such a dispersed location would have isolated them however from an auto-less labor force since public transport would have been financially unfeasible for low volume moving to and from the plant site.

Factors in Location Decisions - Interview Results

The great majority of significantly large industrial firms located in the towns studied were branches of firms with headquarters elsewhere. Of the twenty-five firms which commented at some length on the chief factor in their decision to locate in the general region, five were resource-oriented (timber in every case), 15 stressed the labor factor as dominant, and five were firms started by native inhabitants of the areas. Questions were also phrased in terms of why the firm decided to locate in the town of their present location as opposed to some other town in the same state or general area. For 17 of the 20 non-native firms, the existence of good transportation was considered an important facilitating, but not determining factor. Eight of the twenty non-native firms said that they had located solely on the basis of labor supply.

Many firms admitted they could have gone to a number of places at the time of their decision, even given their needs for labor, water, power, etc. Five firms–all located either in S.C. Town or in Mississippi City--stressed that the salemanship of the town or county was the dominant factor influencing their decision. In S.C. Town, the firms acknowledging the decisiveness of local salesmanship accounted for more than 85% of the current employment of firms interviewed and 75% of the current total industrial employment in the area–some 2900 jobs.[1]

Only one firm mentioned financial inducements offered by the town as a factor in their location decision. For that firm, which had made the *regional* choice (South) because of cheap labor, the financial inducements offered by the town were the dominant consideration in choosing to locate in the town. (As an employer of 250, that firm was neither insignificant in terms of the local economy, nor was it critical.) One other firm noted that it was impressed by the low tax rates in the state and local areas but that labor was the dominant factor. Only three of the non-native firms were branches producing for a regional market. The other 16 non-native firms were producing for a national market, whether as an independent or as a branch of a national firm.

One must be wary of conclusions from such scattered interviews, but some observations can be made. First, local salesmanship is a critical element in the location process. Towns can have labor, water, power, good transportation, and other attractions, and yet fail to elicit the attention and then the interest of outside firms for want of a concerted sales effort. A town committed to industrialization and with dynamic leadership–such as S.C. Town--can achieve great growth through intensive salesmanship. Second, most of the firms which have come to the towns since 1950 and especially since 1960, have come primarily because of the availability of cheap labor. The timber and local firms--with one exception–located long before 1950 and were the core of industrial employment up to 1950. Third, water and transportation–though facilitating and not determining factors–were important in location decisions. Without such assets, the towns even with their labor surplus would not have grown nearly as fast. Most of the non-cut-and-sew plants could not have come without such attractions. Fourth, financial inducements to the firm from the town did not appear to be major factors in the location decisions of most of the firms, even though firms were questioned as to their choice between particular towns in the same general area. Fifth, market proximity was seldom a dominant factor in the particular town location of the firms within the region. Sixth, when firms came in search of labor, they looked for labor available at low wage rates, rather than for specified skills.

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[1] There were a few location reasons given which broke with the general pattern: One cut and sew firm located in the town because the son of the chief owner and manager of the parent company had worked in the town for several years for a plant in a different industry and had recommended the town strongly to his father at the time the decision was being made between several equally viable labor-abundant locations. Another firm, manufacturing tile, located in Miss.Town as the second largest employer at the time because leading town citizens banded together to purchase a major portion of the firm's stock with the express intention of bringing the firm into the town. The firm initially had planned a location at the other side of the state, but had been relatively indifferent between locations. After changing its location plans, the firm consistently failed to turn a profit or issue a dividend. The citizen stockholders were left disappointed, having nothing to show for their investment except philanthropic pride at having helped their town and fellow citizenry.

An observation can be made concerning the preoccupation with "footloose" industries that has existed among economists during the last decade.[1] Of the twenty-eight firms interviewed, only one could in fact be termed footloose, or capable of moving almost overnight at minimal cost to a new location.[2] Several firms were footloose in a different sense at the time of their initial location, i.e. since they had decided to absorb a certain cost in moving, and since they were not tied to any resource or market, they were capable of moving to almost any location. These firms, once located, however, had such extensive fixed capital investments that they could not have relocated without prohibitive expense. Interestingly, the one footloose firm that was discovered was showing signs of preparing to move out of the country in response to the rising minimum wage. Expansion had been stopped at the current plant and a new plant had been opened in Jamaica. There were indications that the firm was not attempting to replace employees who left via normal turnover. Complaints about the present site flowed readily from the plant manager. The loss of the plant would be a severe blow to the town's employment market, since the firm had once employed some 1500 unskilled women. The firm was by far the largest employer in the town as well as in that critical sector (unskilled female) of the labor market.

What appears to take place then, is a decision to locate in the region because of labor availability and lower wages paid. At the same time, the less frequent emphasis on labor as a prime motivation when the choice of town is questioned, the sizable response on transportation being facilitating, and the lack of focus on any one thing as being determining, would indicate that a rather wide range of location motivations comes into play on town choice. Recent location surveys would support this.[3]

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[1] Walter Isard in LOCATION AND SPACE ECONOMY defines "footloose" as "...industry that has no inclination to locate at any particular site." (MIT Press, Cambridge, 1956), p. 8. Edgar M. Hoover in LOCATION OF ECONOMIC ACTIVITY terms "footloose" those "industries for which neither procurement nor distribution cost is an over-ruling locational factor." (McGraw Hill, New York, 1948), p. 36N.

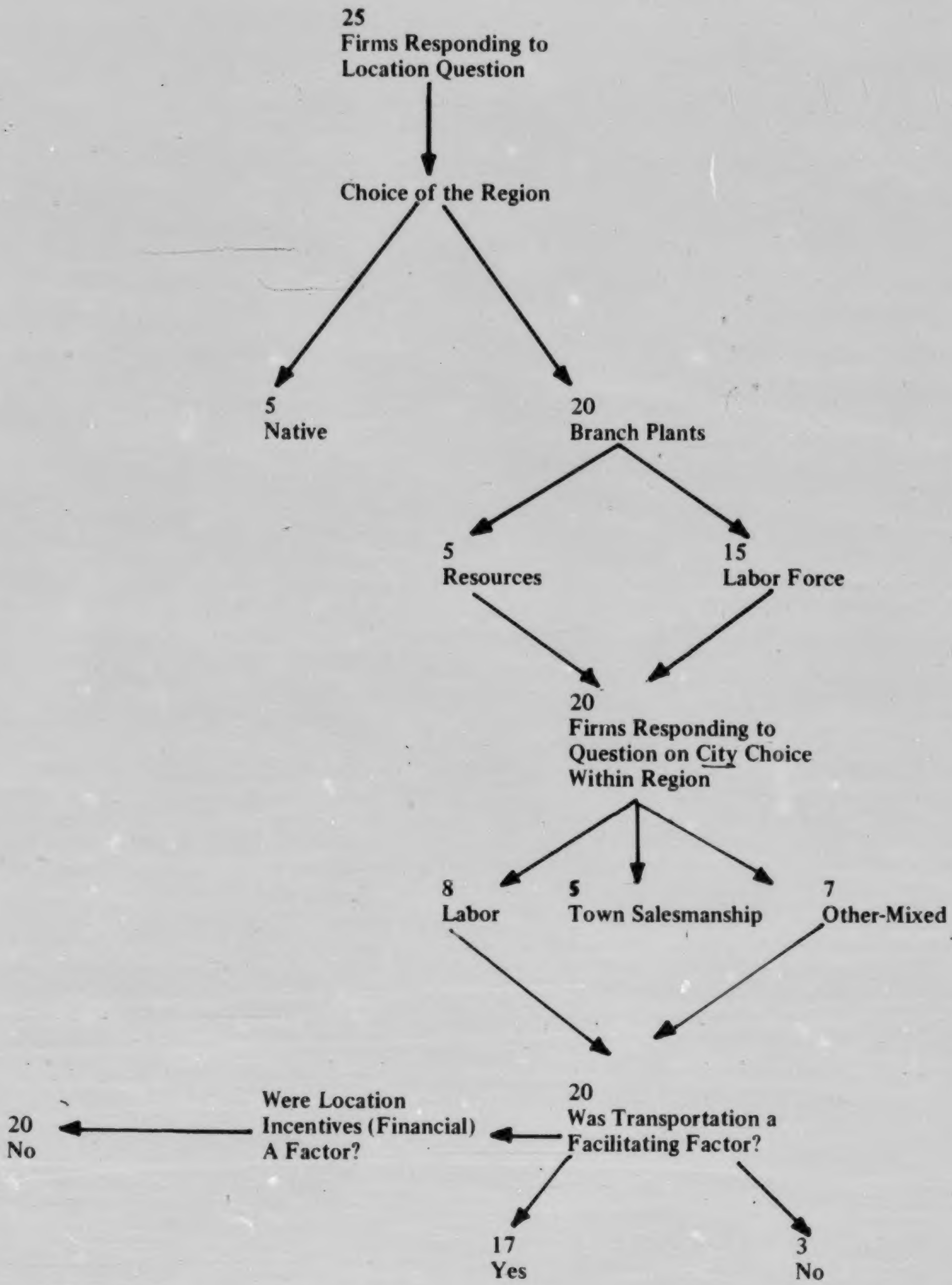
[2] Interestingly, although the firm by its own admission and by the appraisal of informed observers was "footloose," its industry characteristics as described in the ARA document, GROWTH AND LABOR CHARACTERISTICS OF MANUFACTURING INDUSTRIES, featured a medium investment per employee and low blue collar component of the labor force. In short, the footloose quality of the firm would not have been inferred from its industry characteristics.

U.S. Department of Commerce, Area Redevelopment Administration, GROWTH AND LABOR FORCE CHARACTERISTICS OF MANUFACTURING INDUSTRIES, U.S. Government Printing Office, Washington, D.C., 1964.

[3] Mace, Ruth, INDUSTRY AND CITY GOVERNMENT, Chapel Hill: University of North Carolina, 1963.

Figure I-1

Summary of Responses to Questions on Motivation for Locating in Areas Studied


25
Firms Responding to
Location Question
Choice of the Region
5
Native
20
Branch Plants
5
Resources
15
Labor Force
20
Firms Responding to
Question on City Choice
Within Region
8
Labor
5
Town Salesmanship
7
Other-Mixed
20
Was Transportation a
Facilitating Factor?
Were Location
Incentives (Financial)
A Factor?
20
No
17
Yes
3
No

Summary - Manufacturing Base and Industrial Location Trends

A few remarks are sufficient to draw these points on the industrial base together. First, with a steady increase in the quality of transportation facilities, particularly due to the interstate highway program, the emphasis on proximity to *market* has declined substantially. This has led to many firms locating in small towns from which they ship their product long distances. These "export" firms show no marked propensity toward either capital or labor intensity; there is considerably more capital and less labor intensity than indicated by those who have cited the dominance of "footloose," low-investment-per-worker firms in the rural South. The export firms which have located in these areas are representative of *both* high and not-so-high growth firms; this would tend to contradict the conventional wisdom that firms locating in southern rural areas are those in trouble. Wages are not universally low in these firms, and some are in high technology industry; however, branch plants in these industries in southern locations are probably paying lower wages than are their northern counterparts which employ union labor.

The primary reason firms located in the areas studied appears to be the availability and low price of labor; the narrowing of a decision to a specific town is based on labor plus a broad range of other factors, with adequacy of transportation as a constraint. Firms tend to choose towns which are "sold" aggressively.

As for providing the manufacturing base for growth centers, then, this industrial composition can be evaluated in this way:

-Most of the employment provided in these areas is provided by firms which export their products from the region.

-These firms are therefore dependent for their growth on the national demand for their goods; a sizable number of these firms are in high-growth industries; the growth prospects of the industries as a whole are fairly mixed.

-Although skills are limited in these areas, a number of relatively high-technology firms have located. The capital investment per worker is perhaps higher than was expected. Wages are not universally low in these industries, nation-wide, although these industries are offering lower wages at their southern than at their northern locations. What the national wage analysis does tell us is that those firms are in industries which are not "sick" or footloose. On the contrary, what may be indicated is that companies with reasonable growth potential, in response to growing markets, are branching into areas with good transportation facilities and ample labor, and are delighted to be able to pay the labor less than at their other locations.

JOURNEY-TO-WORK AND THE SIZE OF THE AVAILABLE LABOR FORCE

In addition to receiving services from the center, the suburban and ex-urban residents of that county and of surrounding counties rely on the center for employment opportunities. In this way, the area over which the growth center has predominant influence is roughly measured by the bounds of its labor force. Other than for this definitional usage, this concept is useful in indicating the *growth potential* of the center. The city's employment can obviously grow only as fast as its labor supply. The labor force grows in five ways: non-residents of the area migrate in; the bounds of the "area" are extended, perhaps through a better information system or a transportation improvement; the participation rate rises, for instance through the entrance into the work force of housewives or other non-registered residents; through natural population increase (excess of births over deaths); or out-migration declines.

An additional option is open to better paying employers: Underemployment in rural areas is pervasive. For an industrial employer, the underemployed represents perhaps the largest segment of the labor force he will be able to exploit without raising the price of labor for given skill positions.

The second of these events, which concerns the geographic breadth of the labor market, is of paramount importance in the growth center literature, and regarding this, our field studies have yielded some valuable insights into growth center strategy.

Some instructive and useful work has been done recently in recording and analyzing commuting patterns as indicators of patterns of regional economic activity. The Office of Business Economics at the U.S. Department of Commerce has produced state maps showing county-to-county commuting patterns as they existed in 1960 (from census journey-to-work data). Brian Berry, within a project at the Center for Urban Studies at the University of Chicago, has produced maps which define the commuting fields of major metropolitan centers. From this information, he has analyzed "*the degree of participation in metropolitan labor markets,* with an hypothesis that this is the key variable in what we will term the 'regional welfare syndrome', indexing the gradient of urban influence on surrounding areas." [1] The analysis shows a high correlation between this key variable, which decreases with distance from urban centers, and various welfare measurements, including: average value of farm land and buildings, median family income, median school years completed, rate of population increase, percent gain in the population through migration, and unemployment rate. The conclusions drawn from this analysis are criticized in Section V. The analysis is very useful, however, and it is interesting to examine the counties in the areas studied, regarding 1960 commuting patterns.

The following table summarizes 1960 commuting, by number of workers, into and out of the counties containing the four cities and two growth centers. It is immediately evident that Memphis and Charlotte are important employment centers. Once this is said, some interesting patterns remain. The ratio of in-commuters to out-commuters for the county containing S.C. City is positive, though with a value approaching 2, as opposed to Charlotte's 6. On the other hand, Miss City (County) did not have a

[1] **Berry, Brian J.,** SPATIAL ORGANIZATION AND LEVELS OF WELFARE: DEGREE OF METROPOLITAN LABOR MARKET PARTICIPATION AS A VARIABLE IN ECONOMIC DEVELOPMENT, Paper prepared for the EDA Research Conference, Washington, D.C., February, 1968.

positive ratio. This, combined with the very small numbers moving between counties in Mississippi generally indicates a very short distance commuting pattern, a phenomenon supported by the field studies.

Commuting in 1960, by Counties containing:

	Memphis	**Miss. City**	**Miss. Town**	**Charlotte**	**S.C. City**	**S.C. Town**
Into	**4789**	264	351	12,801	1416	503
Out from	2738	315	383	2,369	832	1064

Referring to the abstract map earlier in this section one would expect to see a commuting dependency of the small town in each region on either the large urban center or on the district center. The 1960 pattern was:

	By County No. Commuting	**Distance between cities**
S.C. Town to Charlotte	0	70 miles
S.C. Town to S.C. City	0	40 miles
Miss. Town to Memphis	0	75 miles
Miss. Town to Miss. City	141	40 miles

The lack of commuting between small towns and large urban centers is largely determined by the deliberate choice of field study towns which are well separated from SMSAs. Nevertheless, the absence of very little commuting between either small town and any other town of significant size is striking. In contrast, there was more movement, overall, in the opposite direction!

	No. Commuting
S.C. City to S.C. Town	31
Miss. City to Miss. Town	139

The extreme picture painted by this analysis is somewhat misleading because: data is by county, so that the effect of cities is implied rather than explicit; and we have shown only the counties containing the towns studied. In the case of South Carolina, if the next most industrial county contiguous to that containing S.C. City is included, the picture changes somewhat:

	No. Commuting
S.C. Town to S.C. City (2 counties)	388
2 counties around S.C. City to S.C. Town	121

Overall, however, in 1960 there was not much commuting dependency of the small towns on significantly larger towns. Commuting, instead, was to numerous other small towns. Since 1960, the towns have increased their power as employment centers, and we would therefore expect to find even less dependency on the larger centers.

Unfortunately, the latest data available for such an analysis is from the 1960 Census. Since much of the industrial growth in the towns studied has occurred in the last eight years, comparative current data would be very useful. In the absence of such data, interviews conducted with the firms reveal the present characteristics of the breadth of the labor market in and around each town.

The labor market has geographic boundaries, and these boundaries are measurable in two ways. First, what size area do firm managers *believe* they are *capable* of drawing labor from? Second, what size area is a firm presently drawing its labor from, in terms of commuting patterns? Both definitions have important implications. The first definition is indicative of the area in which a firm will actually try to recruit. It also indicates the area which will be identified to industry prospects who are contemplating relocation, as their prospective labor market.. The larger the perceived area, the larger the geographic area on which firms are likely to have an impact in the labor market and the greater the economic assets with which the town has to bargain in the market for new industry. The second definition is indicative of the labor supply which could be even better developed as an attraction to new industry and is also a major indicator of the town's "welfare radius". Both definitions have obvious relevance for the adoption of any growth center strategy. When used jointly for a town, they suggest the gap between the potential and actual geographic labor market being utilized in that town. When either is used to compare the towns, it can suggest differences in the economic attractiveness of the towns to an outside industry, as well as differences in the extent of exploitation by the communities of the economic resources at their command. Such differences can be due to variations in transportation quality, in geographic proximity to other competing centers of employment, in the quality of community leadership and/or recruitment institutions, or in the quality and/or behavior of workers distributed over the geographic area around the town.

Interviews with firms led to a consistent set of conclusions. Employers in the larger city of the pair in both states perceived a larger labor market and reported commuting that was more frequent and longer in distance than employers reported in the smaller towns. These findings suggest that the larger town already serves more intensively as an employment center for a given expanse of hinterlands than do smaller towns, and that the larger town can serve as an employment center for a larger geographic area than do smaller towns. This difference probably results from the better existing transportation network which services the larger towns, the higher wage rates which are paid in larger towns [1] (which can compensate for greater expenditures by the worker on transportation), and the better organized and administered recruitment institutions in larger towns

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[1] This phenonmenon has been most recently documented by Victor R. Fuchs, DIFFERENTIALS IN HOURLY EARNINGS BY REGION AND CITY SIZE, op. cit. Fuchs controlled for race, sex, education, and age of the labor force and still found a sizable differential in wages ascribable to city size.

(the Employment Security Offices, the Chamber of Commerce, and the communications media.) A behavioral quirk of the suppliers of labor may also be a factor. It may well be that a worker looking for a job considers primarily the total number of jobs available at a town, believing that the larger this number, the greater the probability that he will find a job to match his skills. The worker may overlook–because of ignorance or because the costs of obtaining the information are too high–the numbers of workers competing for these jobs.[1]

The differences between city and town in South Carolina were marginal, while the differences between city and town in Mississippi were large. The strength of S.C. Town in exploiting its hinterland suggests that it may be acting as a growth center for its geographic region on a level comparable to S.C. City. Except for the transportation factor discussed below, however, there would appear to be no major difference in the natural attributes of S.C. and Miss. Town. The differences that do in fact exist may very well be due to the quality of leadership in S.C. Town and its relative openness to utilizing the Negro labor in the hinterland.

Another finding that emerged from the data is that firms in both the City and Town in South Carolina perceive geographically larger labor markets and and report commuting of greater frequency and for longer distances than do firms in Mississippi.[2] Indeed, a firm in S.C. Town appears to be able to recruit effectively in as large or larger an area as does the average firm in Miss. City. This state difference suggests that given present conditions and practices, towns in Mississippi will not function nearly as effectively as growth centers for their region as will towns in South Carolina. The chief reason for this appears to be the greater resistance of community leadership in Mississippi to changes which would define a broader labor force, including many rural Negroes, and the lower quality of the transportation network around the cities studied in Mississippi. In a state in which the allocation of road funds has highly political overtones, the towns studied in Mississippi have fairly consistently voted for losing candidates for statewide office. The lower incomes of rural residents in Mississippi as compared to South Carolina restricts the relative private transportation resources (autos, money for fares) at the command of Mississippi residents.

Workers hired by firms in Mississippi may have tended to move their residence to the town of their employment, while workers in South Carolina tended to commute indefinitely from their residence at the time hired. The trend of the Mississippi region towards large land units, tenant ownership, and non-land owning rural labor–in contrast to the South Carolina pattern of small farms individually owned–would have facilitated such a pattern. Reports by plant managers also tend to support the thesis of more extensive intra-state migration in Mississippi than in South Carolina. The

[1] This behavioral quirk was suggested by our interviews with Southern workers, and by the empirical findings of various survey and economic studies of migration; further investigation would be interesting.

[2] In both S.C. Town and City, more than 70% of the firms–10 of a total of 13 firms responding–perceived a labor market area greater than 25 miles in size. Four firms, all in S. C. City, cited areas above 35 miles and as large as 50 miles. In Mississippi, on the other hand, only 3 of the 13 firms responding reported a labor market area of greater than 25 miles. Indeed, none of the firms in Miss. Town saw much chance in finding laborers beyond 20 miles or so. The city firms in both states reported a larger area than those in their respective towns. S.C. Town, however, generally perceived a larger potential market than even Miss City. (Two firms in Miss. City did perceive themselves, however, as competing for higher skilled workers with several major cities more than 60 miles away.) The commuting patterns of current employees gave similar results. Generally, workers tended to commute further in South Carolina than in Mississippi, and City employers were typically able to draw workers further than firms in the Towns.

managers of many firms in Mississippi reported sizable changes in residence by their employees after being hired. Firm managers in S.C. City did not have such a perception, while managers in S.C. Town did.

Summary - Journey-To-Work

Generally, the small towns studied do not seem to depend significantly on job opportunities existing in larger towns. It appears that a growth center can function in three different ways: as a stimulus to short distance migrations (Miss. City, Miss. Town), as a focus for widescale commuting (S.C. City), or as a stimulus to both migration and commuting (S.C. Town). Relatively small towns can command broad labor markets if they are located far enough from much larger cities. It should be noted that each of these patterns has very different implications for the impact industry has on the public service sector and the population, and for the design of accompanying federal programs.

THE TRADING CENTER

The ability of a city to act as a "center" implies that a range of services is supplied by the center to residents in the area surrounding the center. Public service provision, unique in several ways from the supply of other services (and deserving of special attention since E.D.A. has a vested interest in water and sewer projects) is covered below in a separate section. The commercial functions ("tertiary" or "non-basic" economic activities) are commented briefly on here.

The retail sector of Miss. Town, with probably one-third more people than S.C. Town, is several times the size of the latter. This would indicate that either there is greater purchasing power inside the town, or that more people outside the town are utilizing it. One additional factor which explains some part of this is the college in Miss. Town, which provides an infusion of outside income not enjoyed by S.C. Town. The wholesale sector is similarly better-developed in Miss. Town than in S.C. Town, since the former has become an agricultural machinery center of considerable magnitude.

Although both Towns are similarly distant from the Cities studied, and although both Towns' employers share to some extent their labor markets with the Cities, the Towns differ in their linkage to the Cities as trading centers. S.C. Town is somewhat subordinate, a consumer of S.C. City's higher trading functions. Miss. Town, on the other hand, is not as strongly dependent on Miss. City's functions.

Both Miss. City and S.C. City are the major retail centers for residents within 50-100 miles. Their competition is perceived to be the largest cities in adjacent states, rather than other towns in their region. Residents of S.C. Town reportedly travel to S.C. City several times a year to buy suits, cars, appliances, etc. Residents of Miss. Town on the other hand travel several times a year to Memphis and to a town of equal size but with a well developed retail sector, some 40 miles away.

One must be wary of accepting too readily the current trading activities of towns and cities as their *natural* economic lot. Much current activity may be constrained by capital market imperfections, rather than by market size. Neither the towns *nor even the cities* offer entrepreneurs the higher order service of finance capital. Capital generated in the area is primarily invested by the local banks in the National money market, where rates of return are higher and more importantly where risk can be minimized. Where local entrepreneurs wish to build new service shops or expand old ones, where small home-grown industry wants to expand, or when a local developer wants to build several new housing units, money often must be borrowed from out-of-town or out-of-state. (There were exceptions seen, but these generalizations hold, in the main, for the areas studied.) The failure of local banking institutions to provide the needed finance capital for development of the secondary, tertiary, and housing sectors has been a major factor in limiting the diversity and quality of retail, wholesale, and service opportunities which the towns and cities can offer the region.

The explanation for the banks' behavior is readily available from monetary theory and empirical research.[1] Because even the potential market for a retail merchant is obviously more limited in smaller cities than in larger cities, a loan to such a merchant entails higher risk. Regional banks with branches in smaller cities have strong incentives to invest as much capital as possible in the national money market where less risky opportunities are available. The lack of competition among banking institutions in smaller cities - as reflected by their number - removes the incentive to cater to clients' credit needs. The relatively small volume of assets means that risk aversion is high. The size of the portfolio is also not large enough to justify significant volumes of local (higher risk, lower return) investments. In addition, the ability of bankers in smaller cities is also probably more limited than bankers in larger cities. In any event, there is much testimony that they are "very conservative," i.e. their risk aversion is higher than that of bankers in larger cities. The combination of these two factors - higher risk aversion and higher risk - probably increases even more, in the towns and ~~cities surveyed, the discrimination against lending to small business, which~~ has been documented nationally. Two other behaviors are also hypothesized to exist. First, a city size interest rate differential probably exists, to complement the regional interest rate differentials which have been documented in research on the national money market. In other words, the larger the city, the lower the interest rate for an investment of given rate of return. Second, the customary behavior of banking institutions in rural areas and small cities is probably to allocate finance capital relatively more by credit rationing than by interest rate. This practice would reduce the city size interest rate differential, although the differential probably continues to exist. These banking behaviors in smaller cities or rural areas have never been researched in a rigorous fashion, although the need for such research is great.

The malfunctioning of these banking institutions has important implications for growth center strategies. Two points must be stressed.

First, the behavior of these institutions is not optimal in terms of resource allocation. That is, the risks entailed by investments in the retail, wholesale, and housing sectors are not so great as to warrant the conservatism of local banking institutions. This is clearly shown by the willingness of banks in larger cities to finance the better local projects, after local banks have refused. Most of the major retail and wholesale expansions are financed by non-local banking institutions. After local efforts had failed for a decade, outside interests came into S.C. City and built the large shopping center with capital borrowed outside the area. The center became the chief retail center of the city. Its rivalry forced the complacent downtown merchants, whose receipts were reduced 50%, to undertake rehabilitation of the downtown retail section, which had remained unchanged for three decades. The plight of its chief depositors forced local banks to become more generous in lending for local improvement. Similarly, in Miss. Town, the complacent merchants in the downtown retail sector were hit hard by the arrival of a large discount store/shopping center, developed by outsiders with outside money. The retail opportunities in both towns were there in abundant quality; local banks (and older merchants) had grossly exaggerated the risks and home grown entrepreneurship had been stifled. Similarly, most new housing construction in all four towns is done with money borrowed in the state capitol or out-of-state. Local independent developers seldom construct more than 3 or 4 units a year, thus, the major housing developers in S.C. City are agents of out-of-state interests. One of the chief causes has been the conservatism of local banks.

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[1] See in support of the above observations: Paul A. Meyer, "Price Discrimination, Regional Loan Rates, and the Structure of the Banking Industry," JOURNAL OF FINANCE, 19 (Dec., 1964); Franklin Edwards, "Concentration in Banking and Its Effect on Business Loan Rates," REVIEW OF ECONOMICS AND STATISTICS, 46 (Aug., 1964), 294-300; and FINANCING SMALL BUSINESS, Report by the Federal Reserve System to the Committee on Banking and Currency and the Select Committees on Small Business, 85th Congress, 2nd Session, 1958. Interviews in the Towns and Cities with bankers, businessmen, merchants, etc., yielded a consensus as to the "facts" (e.g. local business borrows out of state, local banks invest their capital in national money market and carry on marginal local credit operations; banks have high risk aversion by own admission; banks appear conservative to borrowers or observers having experience in larger cities).

Second, the problem is not that insufficient capital is available in smaller cities for secondary, tertiary , and quatenary sector development, but rather that capital which is available is not used for such development and is invested outside the area. If the problem were one of non-available capital, one could simply conclude for policy purposes that one has found another reason why only larger cities are feasible as growth centers. The actual situation - available but nonused capital - suggests that policy, with relatively marginal effort, might be able to significantly alter current behavior and greatly increase the effectiveness of the Towns and Cities surveyed as growth centers.

Why might a change in local banking institutions significantly enhance the capability of the Towns and especially the Cities as growth centers? First of all, capability as a trading center would probably be greatly expanded. The current absence of many (and/or better) retail and service activities is due primarily to the absence of finance capital, rather than the absence of a large enough customer market. The theory of central place hierarchies has ignored the capital market and assumed that market size was the dominant factor in determining whether or not a place offered various services. Capital market imperfections may be just as central a factor, however. The minimum threshholds of adequate market size to support various activities may well be far lower than central place analysts have hitherto inferred.

Second, the housing sector would be greatly strengthened. The low rates of new house construction are a major deterrent to migration, new industrial locations, and expansions. Most firm managers in S.C. Town and City and Miss City complained vigorously about the lack of "good" middle and upper income housing for managers and professionals. Complaints were strongest in the branch firms of national corporations which had expanded, and thus had had to house new managers, professionals, and technicians sent South by their national offices. Managers also admitted that the representatives of industry prospects, who in recent years were increasingly turning the towns down, frequently phoned them for evaluations of the housing market. Some managers who complained of labor market tightness agreed, on questioning, that the housing shortage made it difficult for the firm to hire workers from farther away; skilled workers would find it difficult to find housing worthy of the rent they were capable of paying. Similarly, it is clear that the laggard housing sector has been a major constraint upon population growth in the towns, and upon the capability of the towns to function as growth centers in terms of migration. This important role of local banking institutions in constraining the housing supply and thus the migration to, population growth in, and industrial development of smaller size cities is critical to the problems of rural development.

MIGRATION

Of critical importance to both the questions asked and the arguments made in this report is the movement of people within regions and between regions. To some extent migration trends can be taken for granted, and used as a backdrop for action; in other words, we can assume that there is an inexorable flow from rural to urban areas,[1] and must shape our programs to be consistent with this inevitable flow. A variation of this assumption is that migrants flow progressively through a series of cities of increasing size; for instance, a medium-sized city of 100,000 is an intermediate stop where former rural residents will stop for a few years, making a rural to urban transition.[2] On the other hand, the policy-maker can accept the goal of shaping this flow (and in the extreme case, reversing it) with public programs. Particularly regarding public assistance to small towns, public investment can influence population movement, and/or the impact of the investment may be altered by population movement.

The growth center, or the town with growth center potential, would be expected to have shown that it can attract population flow from surrounding counties and/or that it can reduce a previous flow of migration from a multi-county area (residents may remain in nearby counties, but commute to the town–see the options under journey-to-work, above).

We will first discuss the pattern of migration in the South as a whole, and then consider the special cases of Mississippi and South Carolina. For the South as a whole, we will review the findings of other studies. These studies rely in part on census data, and in part on survey data. When we discuss migration in South Carolina and Mississippi, however, census data must be relied upon exclusively.

Migration In The South

The basic pattern of net migration in the South has existed unchanged for many years. It is a movement of population out of the rural areas, and into the urban areas of the South and of the North. Since the 1920's the South has lost at least one million of its population through net migration every decade.[3] At the same time, the rural population as a proportion of the total population has been steadily declining, despite its very high rate of natural increase. More recently, however, the process has accelerated, and the rural farm population has suffered substantial declines in absolute terms. The increased "push" on the farm population, originating from the mechanization of agriculture, is complemented by the "pull" of employment opportunities in the cities.

Not everyone responds to these forces; migration is a highly selective process. It is useful to consider the special characteristics of migrants. The most easily measured characteristic is the age distribution. The migrants include a disproportionately large number in the prime working ages.[4] The population left behind will have a higher dependency ratio than otherwise; there will be many old people and children, but few workers. It will also have a lower birth rate, because the migrants include a disproportionate number in the prime reproductive ages (20 to 30).

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[1] Calvin Beale, for instance, feels that the sociological reasons for (particularly) young people desiring more urban amenities have often been overlooked, and that we can expect this flow to continue despite investment efforts in the rural areas. See Beale's remarks in THE RURAL TO URBAN POPULATION SHIFT, National Manpower Conference, Oklahoma State University, May 17-18, 1968.

[2] Chapin, F. Stuart, and Weiss, Shirley F., URBAN GROWTH DYNAMICS IN A REGIONAL CLUSTER OF CITIES, New York: John Wiley, 1966.

[3] Kain, John F. and Persky, Joseph J., THE NORTH'S STAKE IN SOUTHERN POVERTY, Program on Regional and Urban Economics, Discussion Paper No. 18, Harvard University, May, 1967.

[4] U.S. Department of Commerce, Area Redevelopment Administration, Economic Development Research, MIGRATION INTO AND OUT OF DEPRESSED AREAS. Washington, D.C., Government Printing Office, 1964, p. 19.

The migrants are generally better educated than those who remain behind. They are also more likely to be professional people, business managers, or officials.[1] Thus the areas of net out-migration lose the most productive elements of their populations. If the process of emigration continues for several years at a high rate, those who remain will be those with a low propensity to migrate. Increased incentives would be necessary to maintain the outward flow of migrants.

Because of data limitations, net migration figures are used for most analyses. However, there are some data on gross migration available from a national survey. These show that *the rates of gross emigration from depressed areas are actually lower than for other areas.* The depressed areas have higher rates of net emigration, however, because there is almost no gross in-migration.[2] The same survey also provides information on return migration. Since 1950, about 20% of all migration has been back to a place of previous residence. Of this, half has been back to the place of birth.[3]

So far, these characteristics of migration hold for both blacks and whites. Patterns of migration in the South vary widely by race, however, and it is useful to note differences in the migration behavior of whites and blacks. The most striking difference is in the destination of migration. The blacks migrate out of rural areas in the South, and almost exclusively into the large metropolitan areas of the North. They may move to a southern city as the first stage to their migration to the North, but their net movement has been out of the southern cities. The whites migrate from the rural areas of the South, both to more urban areas in the South, and to the North, particularly to medium-sized cities.[4] Ninety per-cent of the blacks leaving the South have gone to metropolitan areas of population at least 250,000, compared to only 60% of the whites.[5] In selected Mississippi counties between 1950 and 1960, blacks were about 10% more likely than the whites to migrate out, or less likely to migrate in. Only the most urban counties show a net gain for nonwhites.

Many of the counties with rapidly growing employment in manufacturing are experiencing net immigration of whites at the same time as net emigration of blacks. The growth of urbanization and manufacturing in the South seems to offer little attraction to the black man, and much to the white.[6] The massive net out-migration of blacks from the South is due to circumstance, not inclination. For various reasons, the blacks have a lower propensity to move than the whites. Some of this is due to their lower educational and occupational level and some to the additional risks of moving associated with discrimination.

[1] U.S. Department of Commerce, op. cit., p. 20.

[2] Ibid., p. 10.

[3] U.S. Department of Commerce, Area Redevelopment Administration, NEGRO-WHITE DIFFERENCES IN GEOGRAPHIC MOBILITY, Washington, D.C., Government Printing Office, 1964.

[4] Kain, John F., and Persky, Joseph J., op. cit.

[5] Kain, John F., and Persky, Joseph J., Ibid, p. 20.

[6] Ibid, p. 31.

Blacks who have experienced steady unemployment are as likely to move as whites in the same situation. But blacks who have been steadily employed hardly ever move, in contrast to whites with steady employment who move just as readily as unemployed whites.[1] When blacks do move, they are more likely than whites to move to a city where they have relatives.[2]

Migration In Mississippi and South Carolina

Analysis of census data for South Carolina and Mississippi from 1950-1960 and for Mississippi since 1960 shows that the pattern of migration at the state level adhered closely to the pattern for the South as a region. The mechanization of agriculture prompted a major decline in the rural farm population. In Mississippi, the rural farm population fell by 46% between 1950 and 1960, while in South Carolina, the corresponding drop was 50%. The population decline was accompanied by migration from rural to urban areas, and a large *net* out-of-state migration. Out-migration was heaviest in both states within the working age population, and among non-whites as compared to whites. Indeed, in South Carolina, more than 95% of net out-migrants were non-whites, while in Mississippi, the percentage of non-whites ranged from 68 to 82% of total net out-migration. This difference is due largely to differing non-white proportions by age groups between the two states. Switching the emphasis to internal migration, one observes that in both states, most of the migration of whites is *within* the state, while almost all of the migration of non-whites is *out* of the state. Rural counties lost both whites and non-whites, while urban counties gained whites and lost non-whites. The tendency is for "families" to move within the states, while single persons move out of state. It must be noted, again, that the statistics are for net migration. Hidden within the net figure might very well be the pattern of major internal migration of non-whites from rural areas to urban areas, accompanied by emigration from urban areas within the state to urban areas in the North. There is simply no way to test the hypotheses that blacks, as a rule do, or do not, migrate directly from rural areas to northern cities, from Census net statistics.

The counties containing the four towns studied also followed closely the state and regional patterns. However, the level of magnitude of net out-migration was much lower between 1950 and 1960 for the counties containing the cities than for their adjacent counties or the counties containing the towns. This fact probably indicates that new jobs in the cities are holding back out-migration and are attracting migrants from other areas of the state: in short, the cities are functioning as growth centers in terms of the migration definition. No such major difference in the magnitude of net out-migration is apparent for the towns, as compared to adjacent counties. Yet, since the population within town boundaries grew rapidly during the decade--controlling for boundary changes, the towns obviously were functioning as migration magnets. Their attraction was not sufficient, however, to stem the heavy out-migration from the rural sections of their counties. In the 1960's, the period in which much of the towns' industrialization has occurred, the pattern appears to be different. Data for the county containing Miss. Town for 1960 to 1966 indicates net out-migration far below that of neighboring counties and of the county containing Miss City. The 1970 Census may then reveal that the towns functioned as growth centers (in terms of migration) in the 1960's similar to the ways the cities functioned in the 1950's.

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[1] Ibid., p. 20-21.

[2] See URBAN GROWTH DYNAMICS, op. cit.

PUBLIC SERVICE PROVISION

A characteristic of growth centers assumed by the literature is that the city acts as a public service center for a hinterland of some size. In order to examine the relevance of this to the cities studied, the broad range of public services can be categorized in this way:

1. *Fixed Service.* Population must live in or very near the city providing certain services in order to enjoy it. This service-type includes water supply, sewers, and housing.
2. *Service-mobile, limited.* Within a limited range, certain services can be provided to population outside the city limits: sanitation, ambulance, and police/fire services are among these.
3. *Service-mobile.* The welfare service, usually provided from a county office, includes case-workers who drive considerable distances to dispense the service.
4. *Population-mobile, frequent.* Children and adults can theoretically travel considerable distances on a regular basis to partake of certain publicly provided services: schools and training programs are most relevant here.
5. *Population-mobile, infrequent.* Doctor and hospital visits are not made on a regular basis as visits to school; the population can therefore conceivably be located further from the service to which it must travel.

Three questions are of interest: Do rural residents become urban residents because of the attraction of urban services? Do higher quality services in the center benefit those outside? What is the most efficient way to provide social services?

Logically, a person living in a rural area with very low public service quality will want to locate nearer to better services, if he has reason to perceive a need for those services, and if the cost of obtaining them does not exceed the benefits expected. It is not readily apparent, however, that a long-time rural resident, full-time employed in farming, will be drawn a considerable distance to relocate in a city providing the services above, with the exception of education and training. Farmers have long since provided their own wells and septic tanks and have become accustomed to living without nearby police and fire protection. Poorer rural residents, black tenant farmers for instance, seem not to have been responsive to any demonstration effect, and they reacted finally not to poor services but to disappearance of income.

When rural residents began to take part-time jobs in cities, however, this independent outlook may change. Without detailed research on this question, it is virtually impossible to hypothesize which service might be most motivating. From random discussions, however, with residents in the four towns, it is strongly suggested that proximity to place of work is a more important relocation motivation than proximity to a service.

On the second question, as to whether services in the center substantially benefit those living outside, we will have to exclude service type 1 above. Of the rest, all have been seen to have a limited effect, and the effect seems to be least in the smaller towns. First, on limited-mobility, city-run services, there appears to be little "spread" effect on surrounding rural residents. Sanitation, police and fire department services are available to city taxpayers and to other units which may contract with the city for the services.

Certain volunteer groups exist--for instance, a "rescue squad" in S.C. Town–that will answer distress calls of various sorts on a county-wide basis, but these are exceptions. Services to which population must travel regularly, such as education, can yield a benefit to attending surrounding area residents. Instruction in the larger city school will be superior because of the larger tax base in the urban school district, the greater pressures for quality education which come from a more highly educated parent population, and the presence on the teaching staff of wives of industry executives.[1]

The impact of hospital service on those in the hinterland seems to be of sufficient importance to merit separate attention. There has seemed to be an historical reluctance on the part of both small towns to assume a responsibility for health care in the surrounding county. The evidence for this assertion is the record of discussions surrounding the financing of the county hospital now located in S.C. Town, and the existence of very serious health conditions a very few miles from Miss. Town. The situation is decidedly not merely a lack of concern for neighbors. Rather, a major factor is also the lack of resources for such altruism in towns which are themselves poor. Yet when political leaders are asked to list priorities, health facilities were not high on the list. (The political implications of growth center strategy go into more detail on this problem, below.) Health and hospital facilities were considerably better developed in Miss. and S.C. City, and there was evidence of S.C. Town residents utilizing facilities in S.C. City.

A third question is that of efficiency in provision. There is little doubt that many of the services mentioned above can be more efficiently provided on a scale larger than what is possible in towns of 10,000 and below. The universal movement in rural areas to consolidate schools into more efficient units would indicate that there is little controversy on that subject. Empirical studies of primary and secondary education have generally indicated a horizontal average cost curve for school operations,[2] but a U-shaped cost curve for school administration with optimum size at about 44,000 pupils.[3] Studies of police protection indicate horizontal average cost curves;[4] studies of fire protection suggest U-shaped cost functions with optimum size varying from 100,000 to 300,000.[1] The only study of refuse collection produced a horizontal average cost function.[2] Less ambiguously, studies of electricity,[3] sewerage,[4] and gas,[5] have indicated continuously declining unit cost curves. The numerous macro studies[6] of the determinants of municipal expenditures should be generally ignored, because of their failure to separate the demand from the cost elements of their independent variables. Nevertheless, in such studies, population size consistently did not emerge as a significant variable explaining much of the variance. Reviewing the analysis to date of the hypothesized economies of scale in public services, a chief scholar on the subject, Werner Hirsch, has concluded that,

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[1] These wives are captive imported workers, whose educations are generally far higher than the teachers which the rural area could generally afford with its meager salaries. In several towns surveyed, the School Board acknowledged that the wives of managers and technicians brought into the area by the new industrial firms were becoming the mainstay of the teaching corps. They generally taught the "enriched courses" and were used also to troubleshoot as the teachers of newly integrated classes.

[2] Kiesling, Herbert J., "Measuring a Local Government Service: A Study of School Districts in New York State," REVIEW OF ECONOMICS AND STATISTICS, Vol. 49, p. 356-367, August 1967, and Hirsch, Werner Z., "Expenditure Implications of Metropolitan Growth and Consolidation," REVIEW OF EOCNOMICS AND STATISTICS, Vol. 41, August, 1959. There is an exception to the finding of a horizontal average cost curve, however. John Riew, for secondary education, derived a U-shaped function with optimum size of about 1675 pupils: "Economies of Scale in High School Operation," REVIEW OF ECONOMICS AND STATISTICS, Vol. 48, August, 1966. Another study by Nels Hanson, purported to discover some economies of scale although not sizable ones, in school expenditures. Hanson failed to adjust for service quality, however, and thus his unit cost calculations are lacking: Nels W. Hanson, "Economy of Scale as a Cost Factor in Financing Public Schools," NATIONAL TAX JOURNAL, Vol. XVII, No. 1, March, 1964.

[3] Hirsch, Werner Z., op. cit.

[4] Schmandt, Henry, and Stephens, G. Ross, "Measuring Municipal Output," NATIONAL TAX JOURNAL, Vol. XIII, No. 4, December, 1960.

> *"Most government services require relatively close geographic proximity of service units to service recipients; this prevents the establishment of huge primary schools, fire houses, police stations or libraries. Urban government services are also labor intensive, with wages and salaries often accounting for more than two thirds of the current costs. The resulting concentration of manpower can increase the bargaining power of labor and this, in turn, increases costs. While there are some economies resulting from bulk purchases of supplies and equipment, such savings can be outweighed by inefficiencies resulting from top-heavy administration and the ills of political patronage in very large governments. Therefore, in terms of economies of scale, governments serving from 50,000 to 100,000 urbanities might be most efficient."*[7]

Thus, given the efficiency of service provision—and in sharp contrast to the assertions of many growth center advocates—towns the size of S.C. City and Miss. City may be close to most efficient size for use as growth centers.

In addition to the conventional services, a broad range of newer services available to communities, largely funded by new federal programs, accentuates interest in the most efficient and effective way to disperse them. The OEO Community Action Program and DOL Concentrated Employment Programs usually focus their attention on a "target neighborhood" within a large city. In a more rural environment, however, they broaden the target population to include several towns and their hinterlands within a depressed rural area. The concept of "package" or "one-stop" service provision begun with these programs has been picked up and developed further by a pilot federal program in larger cities of Neighborhood Service Centers.

[1] Hirsch, Werner Z., "Expenditure Implications..." op. cit.; Will, Robert E., "Scalar Economies and Urban Service Requirements," YALE ECONOMIC ESSAYS, Spring, 1965.

[2] Hirsch, Werner Z., "Cost Functions of an Urban Government Service: Refuse Collection," REVIEW OF ECONOMICS AND STATISTICS, 47, February, 1965.

[3] Nerlove, Marc, RETURNS TO SCALE IN ELECTRICITY SUPPLY, Institute for Mathematical Studies in the Social Sciences, Stanford University, 1961; Johnston, J., STATISTICAL COST ANALYSIS, New York: McGraw Hill, 1960.

[4] Isard, Walter, and Coughlin, Robert E., MUNICIPAL COSTS AND REVENUES RESULTING FROM COMMUNITY GROWTH, Wellesley: Chandler-Davis, 1957, Published under the auspices of the Boston Federal Reserve Bank and the American Institute of Planners.

[5] Lomax, K.S., "Cost Curves for Gas Supply," Bulletin of Oxford Institute for Statistics, 13, 1951.

[6] e.g., Brazer, Harvey E., CITY EXPENDITURES IN THE UNITED STATES, National Bureau of Economic Research Occasional Paper 66, 1959; Scott, Stanley, and Feder, Edward L., FACTORS ASSOCIATED WITH VARIATIONS IN MUNICIPAL EXPENDITURE LEVELS, Berkeley: University of California, 1957; Wood, Robert C., 1400 GOVERNMENTS, Cambridge: Harvard University Press, 1961

[7] Hirsch, Werner Z., "The Supply of Urban Public Services," ISSUES IN URBAN ECONOMICS, Perloff, Harvey S., and Wingo, Lloyd, (eds.) Resources for the Future, Baltimore, 1968, p. 509.

For the sake of effective intake and service delivery, a major drive in NSP, CAP, and CEP had been to decentralize operations. Indeed, for the sake of social and political values, many have agreed that neighborhoods should run their own programs even at a cost in efficiency. Others argue that the efficiency loss is illusory. In the absence of "community involvement," effective intake and service delivery can not happen. Those to be served efficiently simply won't come forward to be served. Thus, while programs do function efficiently for those they serve, they serve so few as to be inefficient in terms of overall objectives. These kinds of arguments have been completely ignored in the discussion of growth centers. If decentralized neighborhood control is so vital for the political and social health of the larger cities, it is not clear that massive migrations from small towns (10,000-75,000) to middle size cities, (250,000) will be a desirable achievement. According to the Moynihan Report,[1] the Crime Commission,[2] and the Kerner Commission,[3] rootlessness and the breakdown of family and community social controls in the ghetto are major factors in Negro unemployment, crime, illegitimacy, the rising sense of disorder, etc. It might well be that the sound economic development policy, especially for the black, is a policy which stresses preserving social roots, family structure, and community controls while providing training, services, and employment opportunities.

A point is made here, and expanded in following sections, which is most important for federal agencies to recognize. For both reasons of pure economic efficiency and of equity, an expenditure of federal funds on any one service or facility cannot be viewed as if the service were the only service being offered. Social services must be coordinated in order to provide "referral" from any given intake point to many action agencies. The causes of poverty are many and inter-related. They require comprehensive programs. The joint product of the coordinated services is greater than the sum of their products when services are provided independently of each other. Given this situation, the construction of new physical facilities - roads, schools, water works, industrial parks - should be coordinated with the other kinds of service provision. A discussion of this point takes place at the end of Section III.

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[1] Moynihan, Daniel P., THE NEGRO FAMILY, THE CASE FOR NATIONAL ACTION, Washington, D.C., Government Printing Office, 1965.

[2] The President's Commission on Law Enforcement and the Administration of Justice. TASK FORCE REPORT: CRIME AND ITS IMPACT - AN ASSESSMENT, Washington: GPO, 1967.

[3] PRESIDENT'S NATIONAL ADVISORY COMMISSION ON CIVIL DISORDERS, New York: 1968.

PRELIMINARY CONCLUSIONS - GROWTH CENTER CHARACTERISTICS AND SMALL TOWNS

The major conclusions from the preceding pages have been that:

1. Manufacturing firms which are tied to the dynamic elements in the national economy have located in fair numbers in some small towns.

2. Although a prime location reason is the availability of low-wage labor, many of the firms are in industries which are not notably low-wage-paying on a national level.

3. Some small towns which have gained industry do offer retail, service, and even wholesale opportunities to their hinterlands. The diversity and quality of opportunities is generally less than in larger towns and cities, however. Town size alone, however, does not permit prediction of the position of a town in its regional central place hierarchy. To a great extent, the failure of industrializing towns to improve their retail and service sectors may be due to capital market prices, rather than simply to the failure of demand to exceed the necessary threshhold for risk-satisfactory profitable operation, or the failure of the income multiplier.

4. Some small towns are able to attract labor from considerable distances indicating that they can serve as employment centers despite relatively low official population. Some small towns are not dependent on much larger towns for job provision.

5. Out-migration from counties containing industrializing towns has declined. In Mississippi, since 1960, the smaller town has shown a more dramatic out-migration decline than has its larger neighbor city, indicating that investment in small towns can pay off if a goal is to stem regional out-migration. There seems to be a continued exodus of blacks, however, and this is assumed to come from a failure of industrial employment opportunities open to blacks to keep pace with the throw-off from agricultural mechanization.

6. Until a certain size is reached (50,000 to 100,000, most likely) there are efficiencies to be gained in service provision in larger towns; thus, centers providing hospitals, schools, and water supply plants can offer their services at a lower cost per capita in a town of 20,000 than in a town of 10,000. Efficiency arguments are not clear, however, regarding a new, broader range of services and programs which administer these on a "target population" basis.

Growth Requirements Noted in the Field Studies

In addition to the more conventionally regarded characteristics explored above, the research yielded other conditions which apply to growth center development, which have important policy implications. These are discussed below under the following subject titles:

Information Structure
Political Base for Development
Leadership

AREA INFORMATION STRUCTURE

In order for an area to grow in population size or to act as an employment base for an increasingly wide area, it must obviously attract new sources of employment, and/or encourage present sources to expand. In addition to convincing new firms that certain necessary physical resources can be obtained in the area at acceptable cost, the area must also make the numbers in its labor force known; as pointed out above, available labor is high on the firm's checklist for location.

With regard to this need, the field research observed the enigmatic phenomenon that, in areas where an observer present could see evidence of unemployment in excess of 10% of the labor force, both industrial and political representatives claimed that the labor market was "tight", citing the official unemployment rate of approximately 4-6%, issued by the State Employment Security Service.

The perception of a tight labor market has severe implications for the growth of the town. If the perception is true, the town's advantages for outside industry are dwindling. Even if the perception is not true, the town's ability to attract outside industry will be reduced because of discouraging answers to inquiry from prospective firms.

Several explanations for the incongruity can be given. First, there is a semantical problem: firms may be reporting a true experience but are using misleading terms for outsiders. Based on the firm's past experiences, the firm is being forced to hire lower quality workers than in earlier years when it was getting the cream of the labor force to work in jobs far below their potential. The cream of the labor surplus is gone; the labor market is therefore "tightening." Yet, to say that "the market is tight" implies to most outsiders that workers can't be found even if the firm is willing to absorb greater training and supervision costs, etc.

Second, there is the fact that an official agency is supporting this qualitative impression through flaws in its counting methods. The State Employment Service (ES) understates unemployment[1] (and the potential labor force[2]) in several ways: only those who register as unemployed and seeking work are recorded; agricultural workers are not included; area boundaries are too restricted, etc. Furthermore, many underemployed workers, in addition to a group which would be willing to enter the labor force if the opportunity was presented, such as housewives, is not considered by the ES. Third, it is to the existing firm's advantage to understate the available labor force, in order to protect its labor pool from new industry.

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[1] Household surveys reported in the MISSISSIPPI BUSINESS REVIEW in 1967 found unemployment in counties as high as 40%, although official ES statistics measured unemployment for those counties as 5 to 8%. **MISSISSIPPI BUSINESS REVIEW**, University of Mississippi, March, 1967

[2] In Section II, national age/sex labor participation rates are applied to the base population in the counties containing the surveyed cities and towns. The resulting estimates give a "potential labor force" figure. If

The semantical confusion points up the lack of understanding by participants of the dynamics of industrializing an area. The first firms which entered the town were able to exploit a labor force which, despite heavy migration, was largely immobile. As monopsonists, they purchased labor at the legally required minimum wage regardless of how much greater than that wage labor's value productivity may have been. Since there was a huge labor surplus having the skills needed for the work firms offered, management adopted education and testing scores as a screening device to separate out the "better workers." Since whites have far superior educational backgrounds than blacks in the South, due to historical discrimination, the whites tended to get most of the jobs that industry provided. As existing firms expanded, new firms located, and out-migration continued, the surplus of workers was reduced. Jobs opened up which could be filled only by workers having the background or learning potential of the high school graduate. Firms then began to compete for the most educated workers, offering higher wages or upgrading opportunities. Firms which could not compete in terms of higher wages or which did not really require a high school graduate for their kind of work dropped their hiring standards. The tightness reports of older firms reflect that the labor these firms are currently able to hire is of lower quality (productivity) than the labor they had hired several years before when industrialization was in its infancy.

Managers do not perceive their historical experience in the labor market in the context of the total area economy. They also fail to distinguish the reduction in labor's profitability caused by hikes in the minimum wage (which they would have to pay regardless of new industry) from the decline in profitability which has resulted from the movement up the labor supply curve as employer demand shifts outward. Last of all, managers do not recognize, much less manipulate, economic trade-offs which are implict in their choice of recruiting, hiring, training, and wage policies. The tightness reports of newer firms reflect their experience that the profitability of the labor they are hiring is not as great as they had been led to hope when they made their relocation decision. But the managers–both of old and newer firms–who report tightness to their town's industry prospects fail to mention the decisive fact: while labor now being hired at the margin is less profitable than was expected or than was labor hired four years ago, the labor being hired now still is profitable and is more profitable than labor at locations outside the region. Relative profitability after all is the critical factor in location shifts.

[2] continued from preceeding page
persistent unemployment, low wages, limited upgrading opportunities, transportation inaccessibility, etc., - the factors causing workers to drop out of the active labor force–were corrected, the current labor force would grow to the size of the potential labor force. The current labor force in ES official statistics, however, understates the "potential labor force" by 1500 to 4500 workers, some 5 to 16% of the current labor force!! Thus, the realistic potential labor force participants (currently drop-outs) are as important a resource for development as the unemployed and as the underemployed.

The second explanation for the phenomenon is the functioning of the Employment Service. To soften critical remarks about these state agencies, it must be pointed out that they are extremely short on resources, given the goals outlined for them. Assuming that new resources and technical methodology permitting better surveys can be made available, other questions remain which have significant implications.

The major one is definitional: What is the major goal of ES and what boundaries to its activities should the office observe? There exists an all-Negro community about 15 miles from Mississippi Town. There is no indication, however, that the Mississippi Town office of ES has made a concerted effort to quantify and "market" this potential labor force in an effort to develop the *county*. If this community is not to be considered within the labor force of Mississippi Town, the public agency committing funds to this area should insist on knowing why. If claims of labor market tightness have the effect of turning new employers away from the area, and if a town 15 miles away is filled with unemployed and underemployed blacks, it would seem that those who manage the information system are not attempting to maximize the same welfare function as is the federal government.

At the same time, the outlook for Negroes is promising, despite the attitudes of some ES field offices. As explained above, increasing industrialization has resulted in the skimming off of the cream of the labor force and a tightening of the labor force. As the surplus labor supply dwindled, and educational standards fell, Negroes for the first time began to get some of the industrial jobs. This pattern was observed in all four towns surveyed. The import for the future is clear. To the extent that Negroes are disproportionately represented in the less educated segment of the work force and to the extent that the less educated segment of the work force will increasingly provide the *new* workers to the employed labor force as more industrialization occurs, Negroes will benefit disproportionately from *future* increases in industrialization.

THE POLITICAL BASE FOR DEVELOPMENT

The industrial decision to locate is strongly influenced by the activities of town "representatives" who solicit new industry or merely respond to inquiries. The decisions made by these representatives, who can be members of government or semi-official agencies (Chamber of Commerce, for example), can therefore affect both the growth of the community and the efficiency of any large public expenditure. The following remarks are theoretical, but they are extremely important for policy. This, the field studies indicate, is the stuff that small town growth is made of.

The arrival of an industry in a rural community is inevitably the culmination of a long series of decisions taken by both representatives of the community and the management of the locating industry. It would clearly be an oversimplification to view this process as strictly an exercise in rational decision making where well-defined interests are carefully weighed on both sides, offers and counter-offers exchanged and an agreement finally reached. At the other extreme, it would be equally wrong to treat every industry and every community as a special case which shared no common experiences or displayed no similar patterns in the industrializing experience. The results of our research show that in spite of many unique circumstances, there are indeed some general conclusions which can be drawn from the two small towns surveyed about the nature of the community industrialization process.

The attraction of industry into any community-the functioning of the industry market and the subsequent relation of the community with industry-is best understood in the framework of a social process. Efforts to attract (or resist) industry by a town derive ultimately from the attitudes and convictions of a community's residents who act individually or collectively in harmony with some image of their self-interest. An understanding of how ultimate values of individuals are transformed into specific actions requires a theory of social action and social change that exceeds the scope of this research, but the results of this field research have shed light on some important aspects of that theory, especially in the areas of attitude formation and the nature of collective action. In particular, we conclude that attitudes cannot be inferred from self-interest because of a number of difficulties inherent in the notion of self-interest and because of a number of other factors which may be equally important in shaping attitudes. We also conclude that, even in the rare case where the attitudes of residents are all uniformly strong and uniformly pro-industry, voluntary collective action may be incapable of securing the common goal.

The Formation of Attitudes

Attitudes are clearly a fundamental variable in any explanation of community receptivity to industrialization. Attitudes toward industry will naturally vary among individuals and even with the same individual over time. Individual attitudes taken collectively form "community attitude," which is often cited in the literature on location of industry as an important factor in the final choice of industrialists.[1] Perhaps, more important, individual attitudes are transformed through political leadership into a community's public policy towards industry, which defines the types and levels of support--the package--a town is prepared to extend in order to attract and maintain industry.

Attitudes, about industry or about anything else, are the product of psychological, social, economic and historical factors. As a general explanantion of attitudes, one of the most tempting courses to follow is to assert that attitudes emerge ineluctably from an individual's concept of his own self interest. Bauer, Pool, and Dexter[2] have, however, carefully demonstrated in their study, *American Business and Public Policy*, the shortcomings of the concept of self-interest when applied to the formation of attitudes and their role in shaping public policy. In their analysis of the politics of foreign trade, they turned up a number of cases where businessmen expressed attitudes and even took actions which were inconsistent with what, from an objective point of view, seemed to be their "apparent" self-interest. The authors note three reasons why this could be expected.[1] First, it is unclear who the "self" in self-interest really is. Does the president of the domestic branch of a multinational firm view the branch or parent company as the object whose interests are being looked after?[2] A similar situation might occur in the case of a small rural community where an executive's self-interest (a better expression might be his family's self-interest) might differ substantially from the interest of his firm.

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[1] Wallace, L.T. and Ruttan, V.W., "The Role of the Community as a Factor in Industrial Location," REGIONAL SCIENCE ASSOCIATION, PAPERS AND PROCEEDINGS, Vol. 7, 1961, p. 133-42.

[2] Bauer, R.A., Pool, I. and Dexter, L.A., AMERICAN BUSINESS AND PUBLIC POLICY, New York: Atherton Press, 1963.

Similarly, in studies of voter behavior, the linkage of attitudes to self-interest is increasingly being questioned. Much provocative research and theorizing has come in the aftermath of a seminal article by Edward C. Banfield and James Q. Wilson, which presented empirical evidence that large segments of urban populations consistently show a propensity toward "public-regardingness," i.e., putting what they perceive to be the public interest first, at the clear cost of their private self-interest. The propensity of public-regardingness has been hypothesized to vary with income, education, and ethnicity, cf., Banfield and Wilson, "Public-Regardingness as a Value Premise in Voting Behavior," AMERICAN POLITICAL SCIENCE REVIEW, Vol. 58, December, 1961.

Secondly, it is not clear what kinds of values are maximized. Industry brings not only economic well-being but social disruption and realignments in the local power structure causing political uncertainty and how these often offsetting values are weighed in each individual's calculus of "interest" is not easily determined. For example, the mayor of Mississippi Town acknowledged the large economic benefits in terms of jobs and income that a new firm would contribute to his electorate, but also fretted that new industry would also change the racial composition of his electorate. Such a change, by his own frank admission, was a particularly unsettling factor to him. By careful screening of industrial prospects, the uncertainty could be reduced but it was unlikely ever to disappear.

The third and perhaps major factor is information. Individuals may in fact express attitudes that are based on their *perception* of self-interest which may be at variance with their *apparent* self-interest. The gap between real and perceived interest can often be traced to inadequate and misleading information. Because there are financial costs and other constraints that restrict the collection and interpretation of information, it is understandable why citizens of rural communities do not make the effort to acquire sufficient information to appreciate their real interests (subject to the limitations noted above). But it is similarly understandable why attitudes based on their notion of self-interest do not always reflect true self-interest.

One of the best solvents for mistaken attitudes is personal experience, which introduces another dimension to the formation of attitudes. Industry was already a major factor in the economy of all four towns, and attitudes towards industry can be traced in some part to their experience with existing industry. There are indications, however, that prior to industrialization, attitudes towards industry were substantially different. In Mississippi Town, South Carolina Town, and South Carolina City, the first firm to locate there was not the first to try. Earlier interested firms had been turned away because the residents and local leaders were convinced that industry was not necessary for the prosperity of their town which at that time was almost entirely dependent on agriculture for its primary exports. The success in Mississippi City of the first firm, in South Carolina Town and South Carolina City of the first firms in neighboring counties–the firms in each case had expanded several times–was at least partially responsible for the transformation of attitudes in this town. One possible explanation of this turnabout of attitudes is that the performance of the firm and its impact on the town caused the residents to revise their image of self-interest so that it was more in line with their true self-interest. But there is another explanation which suggests that the presence of industry might even change certain features of their true self-interest. The theory of cognitive dissonance states that an enforced or imposed behavior often leads to a revision of an individual's values. The feature of this theory that has been applied to economics and seems especially relevant for a study of the industrialization of rural communities is the notion that attitudes of individuals prior to the arrival of industry can be a misleading indication of how those same individuals would view industry after a period of successful industrialization.[1]

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[1] Bauer, R.A.,Pool, I. and Dexter, L.A., op. cit., p. 474-475. (See also Chapter 9 for a description of criteria of apparent self-interest.)

[2] Barnard, Chester, THE FUNCTIONS OF AN EXECUTIVE, Cambridge: Harvard University Press, 1938

The Nature of Collective Action

In addition to individual attitudes there is another equally important factor that contributes to a community's posture vis-a-vis industry and this factor is group action. Attitudes may in fact be the source for much individual action but in many cases the ultimate goal of this action requires some form of joint effort with those sharing his views. The idea that men organize to pursue common goals is hardly new, but until recently more attention was devoted to describing the subject of group interests while the actual organizational structure of the group was left largely unexplored.[2] Only recently have the works of Mancur Olson, James Buchanan and others[3] shown that much of the success (or lack of success) of groups can be explained by factors other than intensity of interests, the quality of leadership and other social and psycholocical factors. Mancur Olson has pointed out that "the achievement of any common goal or the satisfaction of any common interest means that a public or collective good has been provided for that group" and then argues that "rational, self interested individuals will not act to achieve their common or group interests."

In the rural communities in our survey, the problems of collective action come into sharpest focus in the various efforts of groups to promote and resist new industry. Despite the ambiguity in the use of the concept of interests and despite the presence of unique circumstances–most typically in the form of strong highly personalized leadership–much of the texture which the interplay of the various interest groups has given to the pattern of industrialization in the two rural communities can be explained via the "logic of collective action."

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[1] See Hirschman, A., "Obstacles to Development: A Classification and a Quasi-Vanishing Act," ECONOMIC DEVELOPMENT AND CULTURAL CHANGE, Vol. 13, July, 1965, p. 385-393, and White, Gilbert F., "Formation and Role of Public Attitudes," in ENVIRONMENTAL QUALITY, Johns Hopkins Press, 1966.
Research has shown that attitudes in the South toward racial integration have undergone a similar transformation once integration is experienced. The experience is found not to be as unbearable as had been thought earlier. Resistence drops and even values change, cf. Sheatsley, Paul B., "White Attitudes Toward the Negro," DAEDALUS (Winter, 1966), p. 217-238. Employers interviewed in the surveyed towns reported the same phenomenon with regard to introducing integrated work shifts.

[2] It goes back at least as far as Aristotle who said, "men journey together with a view to particular advantages, and by way of providing some particular thing needed for the purposes of life, and similarly the political association seems to have come together originally, and to continue in existence, for the sake of the general advantages it brings." Quoted in Olson, (see footnote 3) page 15.

[3] Olson, Mancur, Jr., THE LOGIC OF COLLECTIVE ACTION, Cambridge, Mass: Harvard University Press, 1965. Buchanan, James, and Tullock, Gordon, THE CALCULUS OF CONSENT, Ann Arbor: University of Michigan Press, 1962. Downs, Anthony, AN ECONOMIC THEORY OF DEMOCRACY, New York: Harper, 1957; March, James G., "The Business Firm as a Political Coalition," JOURNAL OF POLITICS, Vol. 24, (October, 1962).

Olson's basic premise is that optimal amounts of public goods, whether they be economic goods or common goals, will not be provided through *voluntary* action unless the membership of the group is extremely small. When individuals cannot be excluded from the benefits of a public good, they will not act voluntarily to pursue what is logically and rationally in their own self interest. An exception arises in the case of small groups where it is possible that the interest of a single member is so great that he provide for himself, and consequently for everyone else, the optimal amount of the public good.[1] As the size of the group increases, the probability that any member or any small group of members will have a sufficiently large benefit to justify the acquisition of the collective good diminishes.

An important corollary of the basic premise is the argument that groups which can exert coercion on their members or which provide some separate service which allows them to divert resources towards the attainment of their collective interest will be more successful at reaching the common objectives of their members than the strictly voluntary organizations. In this sense, a government is more efficient than, say, a union because it can enforce participation of all individuals who are likely to receive the benefits and a union is more effective than a club because it can exact payments for dues in order to "purchase" public goods like wage agreements, etc.

By no stretch of the imagination can all the relative strength of interest groups in rural communities be explained through the theory of collective action but there are important lessons to be learned by analyzing each of the groups with this analytical framework in mind.

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[1] There are obviously a number of other reasons why small groups operate more effectively than large groups, reasons which center on the dynamics of inter-personal behavior in small groups.

Local Government in Both Towns

In many respects, the local government is the most logical group to engage in "industry hunting" – to enter the "industry market" – for the community. First, the local government fufills the fundamental requirement for the acquisition of a public good by a group – the power of taxation. In theory, the taxes raised to finance the attraction of industry (either as subsidies or expenditures on amenities) could be distributed among residents in some proportion to the benefits received. In practice, of course, actual identification of beneficiaries and a host of other legal and institutional constraints inhibit the application of the benefit principle of taxation.

Secondly, and again in theory, *the democratic processes of local government* should arrive at a satisfactory weighting of the economic gains and social costs that industrialization may entail, and allow the community to reach a maximum point on the community welfare function.[1]

In the two small towns surveyed, local government did not historically play a continuously dominant role in attracting new industry. It was, however, an important indirect factor through the various subsidy schemes and services to industry. This generalization is less true in the case of South Carolina Town because in recent years, a dynamic Mayor has emerged and become practically the sole force behind the continued industrialization of his town. His efforts however derive more from his own self interest – both altruistic and economic – than from any mandate from his constituency. During the term of office of the previous mayor, very little active pursuit of industry was initiated by the town government. Industrialization or "new industry" was not a major campaign issue during any election. The lack of interest by the previous mayor was reported to be the result of a special relation which he had with the dominant and almost sole employer in the area. The dominant importance of the succeeding Mayor's personal drive in explaining his industrial solicitation emphasis underscores the point that new industry was not treated as a major part of town policy on which the town voters deliberated and expressed their opinions through their vote.

The relative inactivity of local government in the industry market is even more pronounced in the case of Miss. Town where negotiations with industry are the responsibility of the Development Fund, a quasi-independent branch of the local Chamber of Commerce. The mayor who has been in office for the past 17 years is open to industry but does not come in contact with industrial prospects until the Industrial Development Committee has reached substantial agreement on the "package" which the town is prepared to offer.

The important point to be made is that the active attraction of industry, i.e., salesmanship, is not universally treated as a major function of local government.

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[1] For an interesting discussion of the trade-off between social and economic goals in the context of national policy, see: Olson, Mancur, Jr., "Economics, Sociology, and the **Best of All Possible Worlds,"** THE PUBLIC INTEREST, Number 12, Summer, 1968

The lack of initiative by local government in Mississippi Town and to some extent in South Carolina Town can be explained by the activities of two important interest groups which have generally opposed new industry – agriculture and existing industry – and have made their influence felt in the policy of local government. These two groups have been most active and effective in Miss. Town. The following discussion will describe how these and other groups affect the industry market in that location, and will then show what differences were noted in the other three locations.

Interest Groups in Miss. Town

Most rural towns can look back on a glorious agrarian past and the two towns surveyed are no exceptions. One of the notorious legacies of this tradition has been the rural domination of the political system at both the county and, until recently, the state levels. The rate at which "urban" interests have increased their influence in these bodies has varied according to a number of factors, two of the more important being the provision of state laws for redistricting, and the general economic health of the area's agriculture. The differences between S.C. and Miss. Towns in the historical rate of decline of rural power in county government is substantial. Agriculture ceased to be an important export item in S.C. Town's economy decades ago, while Miss. Town is situated in some of America's most fertile land. Even with substantial out-migration of farm labor and a drastic reduction in the number of farmers, rural districts in Miss. Town send four of the five representatives to the county board of supervisors even though the town can claim slightly more than half the county's population. The "over-representation" of the rural areas is not just an irrelevant historical quirk but a zealously guarded privilege which serves the interests of a declining minority. William H. Nicholls has noted that:

> "Considering the desperation with which most county seat towns in the South appear to be competing for industrial plants, one might at first strongly doubt that any antagonism to industrialization remains even in the most rural areas. Nonetheless, in every such community there are important socio-political leaders who see in both industrialization and out-migration a threat to their traditionally high social status and their economic self-interest. Particularly where the plantation organization of agriculture still prevails, the relatively few but politically powerful large planters see in either out-migration or local industrialization the destruction of the plentiful but cheap farm labor supply which for a century has been the very foundation of their economic existence."[1]

As the chemical and mechanical revolution continues to reduce the demand for unskilled labor, the competition Nicholls alludes to has shifted to the scarce factor – skilled labor. The Chairman of the County Board of Supervisors in Miss. Town, a leading farmer in the area, argues that what the county needs is a prosperous agriculture balanced by the "right" kind and the "right" amount of industry. He admits that tractor drivers and mechanics are hard to come by and that industry not only in his county but throughout the region has made serious inroads on the supply of trained labor and that the wage level and conditions of employment, in agriculture i.e., monthly salaries and some form of year-round employment – are largely due to the demonstration effect of surrounding manufacturing firms.

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[1] Nicholls, W.H., SOUTHERN TRADITION AND REGIONAL PROGRESS, Chapel Hill: University of North Carolina Press, 1960, p. 125

Although the county makes a contribution to Miss. Town's development fund, the primary objective of county government is to assist the development of agriculture. If the E.D.A. Over-All Economic Development Plan (OEDP) is a good statement of county goals, as determined by the rurally controlled county government, agriculture clearly receives the first priority:

"The major problem in regard to industrial development in the county has been and still is the problem of maintaining a proper balance between agriculture and industry. Since this is primarily an agricultural area, it is imperative that this balance be maintained."

One of the obvious proposed solutions to the growing conflict of interests between the town and the farmers has been a type of industry that would serve both interests. The OEDP limits its discussion of long term industrial plans to a variety of agricultural processing industries which would raise both the incomes of farmers and the employment opportunities of community residents. As late as 1967, the OEDP notes that "caution as to further industrial development at this time has been voiced by some who fear industrialization is moving too rapidly". And later concludes that, "A closer working relationship between farm representatives and businessmen in an effort to maintain a desirable balance between agriculture and industry is needed. This can be done by carefully analyzing the situation from year to year and planning accordingly." The key question and one to which the OEDP provides few answers, is what constitutes a "desirable balance". The framers of the plan for Miss. Town suggest strongly that whatever the absolute size of industry, its composition should be weighted heavily towards agriculture.

In summary, the agricultural bloc that is largely responsible for what one might call the economic policy of the county is not rigidly opposed to industry but has simply leaned heavily against the winds of change. Their traditional way of life is challenged by the competition that industry promotes not only for the scarce resource but also for the social and political status which they inherited from the past. There have been few schisms within the agricultural bloc with regard to industry and their solidarity has been a major factor in the power which they still exercise in local policy matters.

The farmers of Miss. Town have found themselves in a curious alliance in their efforts to promote an "orderly and balanced" growth of industry. The industries which have located in Miss. Town have tended to reinforce the farm bloc's resistance to industry, although in the case of industry, the political and social factors are not nearly as important as the economic. As described in earlier chapters, plant managers typically regard their labor markets as having fixed supply from which firms would draw their labor force. Thus, there is a fear that new industry would either drive up wages or so reduce supply that special efforts would have to be launched – e.g., advertising, special training – in order to replenish normal plant turnover and provide a base for expansion. There are at least two other important reasons why the plant managers in Miss. Town do not welcome new industry.

First, the absence of unions was, and still is one of the primary attractions of the Miss. Town area and any increase in the number of firms increases, from the managers' point of view, the probability that a nearby plant would be unionized. Proximity to a unionized plant is apparently a cause for concern by plant managers of non-union plants as they must redouble their efforts to screen prospective employees and monitor employee morale.

Second, an increase in the number of firms in the community dilutes the bargaining power of the older firms with local government. Where the farmers tended to influence local government policies through control of the county political machinery, local industry prefers to remain outside local politics and make these preferences known through informal contact with the town. The primary industry in Miss. Town can back up its expressed preference on new industry with threats of eventual relocation, expansion in one of the other plants scattered about the South, or open hostility to the new industry. Because of the tacit agreements – "no raiding pacts" – which are prevalent among industrialists in small communities, such a threat is both credible and effective.

In Miss. Town, the non-participation in local government by industry management stems from a number of factors. First, managers' advancement in the firm is tied to performance on specific matters relating to the operation of the plant – such as production targets and costs – and only indirectly on such matters as public relations. Good performance by management will be rewarded by promotion which will most likely move the executive out of the community. As the director of one of the local community action programs put it, "They (management of local firms) don't want to make any waves" and therefore discourage participation in local politics, or even in the quasi-political groups, such as his own board of trustees.

In summary, the firms of Miss. Town and in particular the dominant employer do not see that their self interests are served by more firms in the community. The grounds for opposition are similar to agriculture but the means of exerting their influence is different. Considerable use is made of their special relation with the town. This special relation was tested only once and the result was a significant strengthening of industry's position. The town brought new industry into the community without prior notification of existing industry. Unfortunately, the new firm shortly went bankrupt, leaving the cityowned building without a tenant and the city with no income to retire the bonds. With the town in such a precarious position, all efforts to attract industry were carefully checked with the dominant employer and eventually a tenant was found that met with both the town's and the dominant industry's approval. Not surprisingly, the new tenant's labor force is made up almost entirely of men, while the primary industry's labor force relies heavily on female labor. Indeed, shortly after location, the new tenant was obliged to undertake an unexpected major expansion from 150 to more than 400 employees. Even though severe labor problems were experienced and very high job vacancy rates persisted, the new industry never once turned to the obvious abundant labor source - women, even though the plant manager admitted that 50% of his jobs could be filled by women. Though informal, the "no raiding pacts" are honored even at great cost to the new industry.[1]

Interest Groups in S.C. Town

The major difference between S.C. Town and Miss. Town lies not in the types of interest groups but in the degree to which their behavior influences local policies. The established firms in S.C. Town are similarly disposed to resist further industry but they have no effective means of registering their opposition. Several factors account for the differences.

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[1] Interestingly also, the Employment Security office also honored the pact by abstaining from forwarding women or even to advocating their hire.

First, the system of local and county politics provides the mayor of the town with a much higher degree of autonomy and freedom from control by the county's rural areas than in Miss. Town.

Second, there is no longer a dominant employer in the area. Once there had been, and then the situation was very much like Miss. Town's, As discussed earlier, the previous mayor was known as a "company man" – beholding to the dominant employer at that time. During his tenure, no new industry was established in S.C. Town. The election which brought the current pro-industry mayor into office did not pit the pro-industry forces against anti-industry forces but rather covered a number of issues. In this sense, the outcome of the election was a stroke of luck instead of a successful campaign for those who stand to benefit most from industry. This points up the importance of the role of leadership in small communities, where mayors can transform sleepy towns with industrial potential into growing, viable communities. In the case of S.C. Town, the mayor has an abiding interest in industrial growth which has its roots not in an expressed mandate from his constituency – industry was not a campaign issue – but rather from his own convictions. These connections are based on a conscious act of altruism, but they also serve the Mayor's economic self-interest.

In summary, the current prospects for industrialization in S.C. Town are neither constrained nor reinforced by the activities of readily identifiable interest groups. Current "resistance" to further industrial growth has consisted for the most part of grumbling by established industry and refusals to make contributions to major special projects which the mayor initiated. The absence of major resistence by the firms, which now number more than six, seems to verify Olson's conclusions that when a public good – in this case the exclusion of industry – is being provided through voluntary action, the larger the size of the group, the less likely the prospects for success.

Miss. City and S.C. City

The two adjoining growth centers have experienced large increases in industry with little substantial opposition from the two groups which were actively resisting the industrial growth of Miss. Town and S.C. Town. While a wide variety of factors can be advanced to explain why groups opposing industrial growth did not occur, or at least did not succeed, several circumstances surrounding the growth of industry in Miss. City and S.C. City shed some light on the problems of industrial growth in the two rural towns and especially the relative disadvantage that they face with respect to the power of interest groups.

First, both cities have long had a diverse economic base in which the trade and commerce sectors were well represented. Conversely, agriculture never played, in relative terms, as large a role as it did in the surrounding towns. In both cases, the reasons for development have unique explanations which do not provide a basis for generalization. In general the established industries enter into community life rather than remain on the outside as economic enclaves. Several large industrialists in both cities are active supporters of new industry because it will serve their town. They recognize but accept that new competition will draw down the supply of low wage labor in their effective labor market area.

The commitment of the cities to industrialization has not always been so open, however. In the 1940's, S.C. City, then dominated by agricultural interests, rejected the approach of at least one major industry which was contemplating location as the first major firm. The dominant families in the county feared a disruption of the status quo and of their authority. Since those families also were heavily involved in the commercial activity of the city, they were able to prevent the commercial sector from acting as a countervailing interest group committed to industrialization. In Miss. City, the dominant partician family also fought efforts to bring in industry lest the "way-of-life" be destroyed. But the banking and commercial interests of Miss. City were composed of people independent of the traditional landowning families and able to act on their own to bring in industry. Since Miss. City was a Mississippi Riverboat town, built after the Civil War, it had a cosmopolitan spirit open to change. As a result of the devastation of the Civil War, Miss. City had only a few wealthy families who could appeal to tradition as the source of legitimacy for their influence. Such families were never able to control the development of the town as had the land-holding families of Miss. Town and S.C. City and Town. The population grew rapidly but was apparently characterized by a large turnover and many non-Mississippi natives. Boat construction, shipping, banking, and commerce were the *major* economic activities of the City from its founding – in contrast to S.C. City. Representatives of this group dominated city politics through an entrenched political machine. They recognized their self-interest in industrialization and had the power to promote that self-interest. Two large timber-related industries located in the city at the turn of the century. They gave the city a touch of industrialization which no doubt shaped attitudes long before the city made its conscious decision to seek industry in the 1940's. The leadership of neither firm made an effort to oppose further industrialization even though one firm had managers in positions of political influence. In short, a number of factors coalesced in Miss. City to provide a political infrastructure amenable to industrialization.

What changed the political climate eventually in S.C. City was very similar in some respects to the pattern in S.C. Town; the changeover in S.C. City merely occured earlier. This suggests that the political commitment of an area to industrialization may in part be a phenomenon of historical evolution. First, the younger members of the families in the ruling power structure who returned to the towns after their educations had attitudes very favorable to industrialization. Higher education functioned to socialize these young people to norms closer to those of their national community than those of their parents. Second, a neighboring county with fewer natural economic assets was able through pure aggressive salesmanship to bring in an industry, which served as a demonstration in industrialization to the resisting town. The gains in income, tax revenues, and status of the neighboring county evoked demands to get the home county some industry of its own. Third, with the passage of time, the ruling elders hostile to industry died off or were forced by age to retire from their decision-making roles. Their successors were their better educated children, if they had not left the town, or more frequently the representatives of the commercial or banking community.

LEADERSHIP

A few remarks which are highly related to the previous topic should be made, pointing to the importance of public leadership. EDA field representatives often cite cases of towns which could obtain federal funds and new industry if they had leaders with the energy and skill necessary to analyze the town's needs and to "sell" its needs and virtues to industry and to government. As the section above on industry location points out, a town such as SC. Town can rapidly expand its industrial base, even in the absence of glaring comparative advantages vis-a-vis neighboring areas, if leaders emerge who can become activist "salesmen." Yet, the salesmen also needs at his disposal someone who can write plans and programs. The need for a full-time planner in *any* town hoping to receive federal funds is evidenced by the difficulty often encountered in merely completing federal applications. This, in the opinion of the research team, is a most important determinant of whether a town will be able to significantly supplement its own scarce resources.

More expertise is also needed in the community if the problems of unemployment, education, health, housing, and pollution are to be correctly diagnosed, and effective programs developed. Such expertise can come through supplying full-or part-time planners, or by training current leadership in the community. Many private organizations-banks, newspapers, law firms, rural electric cooperatives, municipal governments-could be interested in sponsoring members for such training. As areas begin to industrialize, these groups recognize their inability to cope with some of the problems, but they don't know where to turn for assistance. Another source of expertise that remains unutilized, even where available, is the educational institution. The college in Miss. Town has very little contact with the Town government and its faculty plays little role in civic affairs. Yet the potential is great. It is highly desirable to find some way of creating interest on the part of such colleges and portions of their faculties in industrialization and community development.

Conclusions - Interest Groups

Following Olson's analysis, towns are the logical unit to attempt to influence the decision to locate. This is hardly a new conclusion, since much of the literature on tax subsidies has been based on this assumption. However, the failure of towns to grant substantial subsidies has been attributed to restrictive laws that limit the levels and types of subsidies and the means by which they can be financed. Moes, argues,[1] for instance, that the subsidy to industry should be borne in large part by the unemployed immobile resource -- i.e., labor -- who will benefit from the new employment offered by new industry. Levies on wages for this type of subsidy would require numerous revisions in state law.

Our survey and analysis of four towns emphasizes another set of factors which can account for the rather patch-work array of devices that are used to attract industry. First, there may be traditional interest groups – e.g., agriculture – who stand to lose from increased competition at the political, social, and economic level, and who yield considerable political influence in local government. Second, in some cases the decision by the local government to attract industry is seldom made independently of the wishes of established industry. While in theory the immobility of capital would seem to limit these industries' bargaining powers, in practice their influence can be considerable and is often derived even without participating in the local political process.

These generalizations do not apply uniformly to all small rural communities but we feel that the two towns studied in depth are representative of two types of small towns which differ significantly in the power which interest groups wield in shaping the course of industrial growth. S.C. Town has a relatively large number of small employers and the county "farm bloc" was broken years ago due to rapid decline of that sector in the county's economy. Miss. Town has a small number of large employers and a strong rural influence. New Industrial prospects for Miss. Town are screened informally by both these groups, a phenomenon that does not operate in S.C. Town. Both interest groups in Miss. Town realize that they cannot stop but only slow down growth of industry.

The framework for a study of interest groups provided above could not be "tested" in any statistical sense, but the data available is consistent with its major premises. Attitudes toward industry which exist in small towns can be traced back to a number of factors -- the notion of self-interest is a useful tool, subject to the limitations outlined above. The groups which did attempt to attract or resist industry were thwarted by the fact that industry is a public good and collective action without any form of coercion is likely to end in suboptimal amounts of the public good.

The experience of the two towns, especially when compared with that of the two cities, suggest that the analytical framework which has emerged in the studies of comparative national political development and modernization might have useful extensions to the study and planning of regional and local development. Among the factors that could come to bear are: the role of education in socializing elites, generational and interest group conflict, the demonstration effect of economically advanced political-geographic units, etc.

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[1] Moes, John E., LOCAL SUBSIDIES FOR INDUSTRY, Chapel Hill: University of North Carolina Press, 1962.

GROWTH CENTER CONCLUSIONS

The foregoing test of whether growth center criteria apply to the small towns and development centers studied has reached several conclusions which are used in Section V to evaluate E.D.A. strategy towards development centers and small towns.

1. No town or city studied possessed all the growth center characteristics tested for. Several patterns emerged, regarding "mixes" of characteristics. Generally, the two smaller towns have showed ability to attract industry of reasonably impressive growth and wage potential. Industrial growth has not caused a proportionate development of a commercial sector, although forces independent of industry have achieved it in one town. The towns are not particularly dependent on significantly larger towns from a commuting standpoint, but rely to some extent on a superiority in the larger cities of certain public services such as hospitals and medical specialists. One of the small towns, on the other hand, attracts a significant amount of commuting, and commands a sizable labor market. Both towns have contributed to a decline of out-migration from their districts.

2. In terms of "autonomy", or "self-sustaining" growth, it would appear that the small towns are "self-sustaining" in terms of controlling a labor market, and less so in commercial (retail) activities. (Industrial inputs are largely imported and processed, and the outputs exported. In this sense, the towns are certainly not autonomous, but it could be argued that this criterion would allow few cities anywhere to be called autonomous.) Public service provision is a fuzzier area, and two major pieces of "non-autonomous" evidence emerge: first, although all basic services are provided by the town, residents travel to larger cities to see specialists and to obtain "cultural" types of services; second, as will be detailed in the next section (II), residents do not share equally in services, and therefore it can be argued that outside assistance is required.

3. Although a historic advantage in quantity and quality of public and commercial service provision is possessed by the larger cities, there is no evidence that an efficiency advantage exists of a size to warrant allocating all resources to larger cities. Many of the impediments to the development of capital markets and commercial sectors are largely institutional rather than economic.

4. The interest group structure in a small town is capable of fostering or impeding growth. Since each group has a different vested interest in the benefits of industrialization, the larger the number of powerful groups in a community, the more difficult it is to reach a concensus on a "progressive" town policy. Larger cities do not face as serious a problem in this respect because the power of interest groups seems somehow to be diluted by size of city. This dilution can occur, however, in much smaller towns, as seen in S.C. Town.

5. A multi-function center, as described in this section, is likely to develop only if strong leadership emerges in the center. In addition to this requirement, the growth will be fostered by a labor information structure that is sufficiently efficient to make industry aware of labor market potential. The same system is capable of keeping local government informed on the demographic profile of its poor.

SECTION II

PROBLEMS NOTED REGARDING THE DISTRIBUTION OF GROWTH BENEFITS TO DISADVANTAGED GROUPS

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II. INTRODUCTION

The preceding section has concluded that some small towns possess certain growth center characteristics while not possessing others, and that such towns can act as multi-function centers. Several weaknesses present in small towns are identified, and suggestions for encouraging growth are given, with reference to remedying these weaknesses.

In evaluating a growth center strategy, it is next necessary to analyze EDA's goals and policy instruments in light of growth center development. This will be done throughout Sections II through V; this section will begin by examining the distribution of the benefits of growth in the towns studied, highlighting problems encountered: EDA's goals are an acceptable unemployment rate and per capita income level in presently below-standard areas. If the assumption is made that a relative concentration of effort on a center will result in the growth of that center, it still remains to determine what the effect of the growth will be on the employment and low income problems. This section will concentrate on the problems remaining in relatively high growth towns.

UNRECORDED WORK FORCE POTENTIAL IN FAST-GROWING SMALL CITIES

Despite the rapid growth and industrialization of the towns and cities studied, there appears to exist a segment of the population which is not now employed, portions of which would be available for work under different local conditions. The indicator of employment conditions most heavily relied upon by both federal and state agencies, which is the estimate of unemployment made by local offices of the State Employment Services (ES), does not reflect the full extent of an area's unexploited work force potential. This potential can be summarized in four categories: Underemployment, unemployment according to the local office estimate, non-participants, and those not counted. Underemployment, unemployment, and non-counting are very briefly mentioned below, with some examples mentioned. Non-participation is discussed in more detail, because of the importance of work force participation to an area's potential for industrial growth. (Section I has already discussed the contribution of labor force to growth.) We wish to stress here that the following observations on work force potential and on procedures for recording it are based entirely on observations in the areas studied. These areas are suspected of being reasonably representative of the better southern rural areas, i.e. those with the least severe employment problems; this analysis, however, does not claim to prove this, but merely to provide examples of the problems of recording and publicizing a labor force.

1. *Underemployed - Two common examples of underemployment are:*
   a. *Part-time work* - Many working days are lost due to the seasonality of rural jobs. Though many would like to work in the off-season, they are considered employed. Also, many take part-time jobs all year, as full time jobs are unavailable.
   b. *Work at Lower Skill Level* - Many workers who are employed cannot find jobs at skill levels at which they have successfully performed in the past, and so work at lower-skill jobs.
2. *Unemployed by traditional definition*-The local office of ES currently asks a sample "Are you employed?" and "Are you actually seeking work?" This procedure, as observed in the study areas, probably understates the potential work force for reasons other than

non-consideration of underemployment, nonparticipation, and noncounting. These reasons include survey techniques limited by size of sample and size of geographic area surveyed; survey effectiveness declines with respect to population residing outside the city limits, and this rural population is a particularly important component of work force potential.

3. *Non-participants* - Non-participants are those people who are not seeking work, who might seek work under better conditions. People in this category include, but are not limited to:
   a. the worker who has been unemployed so long that he stops looking – an important factor in Southern rural areas.
   b. the housewife who is not looking for work, because she knows no jobs for women are available at wage rates worth the sacrifice of her domesticity.

4. *Uncounted* - An additional problem in rural areas in that a number of the hard-core unemployed are not counted, particularly blacks. Rudolf A. White, in the Mississippi Business Review,[1] estimates that 10% of rural negro males are uncounted.

The importance of the size of an area's labor force to the area's growth potential has been discussed. Since the areas under study have only recently transitioned from a largely agricultural to a primarily industrial base, it may be reasonable to expect labor force participation in these areas to fall short of the national norm. To test this assumption, it is possible to apply national participation rates by age and sex (derived from the national population and labor force distributions) to the local population. The result is an estimate by sex, for various age groups, of how much greater or less than the national average is local labor force participation. Where local participation is below the national average, this is a rough indication of an unexploited potential work force. This calculation has been made in Tables AII-1 through AII-7 in Appendix II; the resulting "estimated labor force" (full potential) is compared in these tables to the local ES office work force estimates from 1960 for three of the towns and all of the counties. This rough method of estimation should be viewed with respect to the following qualifications:

1. The southern rural areas studied are being compared with a national average. This is done with full realization that labor force participation is a concern in many areas of the country other than the South, so that the "norm" by no means represents the ideal.
2. The data used is from 1960. (The only relevant data available since 1960 for these areas consists of estimates of total population, without regard for sex, age, or race.) Although it is realized that subsequent migration trends and changes in employment conditions may have altered the 1960 picture, these estimates are given in order to illustrate work force conditions which have prevailed for at least a portion of the last decade of industrialization; only a rough indication is given, then, of the potential inadequacy of the locally estimated unemployment rate *as an indicator of work force potential.*

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[1] White, Rudolf A., "The Current Procedures to Substantially Underestimate Unemployment in Agricultural States - The Mississippi Picture," MISSISSIPPI BUSINESS REVIEW, April, 1967, Vol. 29, No. 10, p. 9.

Tables AII-1 through AII-7 in Appendix II indicate characteristics for the overall population by age and sex, without respect to race. The following comments summarize some characteristics appearing in those tables which could be misleading if the racial composition of the areas studied were not kept in mind. After these brief comments, the Negro population will be considered separately; the extent to which Negro non-participation influences the following summary statements will then be seen. Without respect to race, the tables in Appendix II would indicate, first, that labor participation rates among men are less than the national average; second, that participation rates among women are generally higher than the national norm; third, that older workers have disproportionately high and younger workers unusually low participation rates.

Turning from towns to counties, participation rates become noticably lower, probably due to inadequate transportation, declining agricultural employment including tenant farming, and a paucity of industrial job opportunities in rural districts. Men, in the four counties, in all age groups have participation rates lower than the national average. Low rates are most common among the younger workers, 15-34, with older men almost reaching the national norm. Participation rates among women in the counties are less easy to understand. Without exception, girls 15-24 are lowest while those 25-34 are among the highest.

Negro Nonparticipation

The work force participation characteristics of the overall population are heavily influenced by the characteristics of a large Negro population. Although the areas studied vary substantially in their dependence on agriculture, the transition from agriculture or other nonindustrial pursuits to industrial employment significantly contributes to the magnitude of nonparticipation, and Negroes were observed in the study areas to have more difficulty making this transition than whites. If the proportion of the labor force involved in agriculture has been large, and especially if the percentage of Negroes in agriculture has been large, displaced agricultural workers have had a large effect on the labor participation rate of the county because of both the time lag and the large number of persons involved. This phenomenon was generally most noticable in Mississippi where the Negro agricultural employment exceeded 75% of the total rural labor force in 1960.

Data insufficiencies make an age-sex breakdown similar to that above impossible for Negroes alone. However, a rough index of the potential for further employment in the black population is available, using the methods outlined in Table II-1, which utilize the same application of national participation rates as was explained above and shown in Appendix II. The estimated nonparticipation is combined with locally estimated unemployment to provide an "unemployment indicator," which, better than the unemployment rate alone, estimates the potential availability for jobs of the presently unemployed.

Table II-1 shows that blacks in the areas studied participate in the labor force at substantially less than the national rates for black persons. The one exception to the low participation trend consists of women in the towns, whose participation rates are slightly higher than the national average. Women in the counties, and men in both towns and counties, have uniformly meager participation. A significant difference between the two states is evident in female unemployment. The unemployment rates in the Mississippi areas are double to triple those in South Carolina. No similar distinction between states can be made with regard to male unemployment. Rates are higher than might be expected for blacks in the rural South only in the S.C. City and County.

Table II-1

A Comparison of the Local Estimate of Negro Unemployment in the Study Areas to an Indicator of Unemployment which Includes an Estimate of Non-Participation, for 1960.

Area	Male Pop. Over 14	ELF	Local Estimate LF	Non-Participants	Local Estimate Unemp. Rate (Percent)	Unemp. Indicator (Percent)	Female Pop. Over 14	ELF	Local Estimate LF	Non-Participants	Local Estimate Unemp. Rate (Percent)	Unemp. Indicator (Percent)
S.C. City	2504	1928	1774	154	8.1	15.5	3378	1537	1705	-168	3.8	-6.8
S.C. City County	9680	7454	6629	825	5.0	15.5	11, 518	5241	4028	1213	5.5	27.4
S.C. Town	(No data available)		–	–	–	–	–	–	–	–	–	–
S.C. Town County	3393	2613	2231	382	7.8	21.3	3821	1739	1283	456	6.4	30.9
Miss. City	5552	4275	3875	400	16.1	24.0	3261	3535	3831	-704	14.3	7.1
Miss. City County	11,559	8931	8134	797	10.9	18.9	14, 286	6500	6076	424	13.6	19.3
Miss. Town	996	767	657	110	5.8	19.3	1267	576	610	-34	13.9	8.9
Miss. Town County	9502	7317	6457	860	17.0	17.9	11, 146	5071	3353	1718	20.2	47.2

ELF = Estimated Labor Force, computed by applying national non-white labor participation rates to relevant population groups.

Local Estimate of Labor Force (LF) = Local office estimates of numbers employed plus registered unemployed.

Nonparticipants = ELF - LF

$$\text{Unemployment Indicator} = \frac{\text{Nonparticipants} + \text{Unemployed}}{\text{ELF}}$$

The three instances where the official labor force exceeds the estimated show a participation rate exceeding the national. In these cases, the low, and in one case negative, unemployment indicator indicates a small labor force potential because of fewer nonparticipants than in the other locations.

Sources: Population data from 1960 U.S. Census of Population. Estimated Labor Force and unemployment data from Mississippi and South Carolina Employment Security Commissions.

Trends Since 1960 - Total Populations

Local estimates of 1965 total populations, although rough, suggest (but cannot substantiate) an increasing participation rate over the five year period. In S.C. County, the population increased 8% while the labor force grew by 17%. In S.C.T. County, the actual population dropped about 4%, but during the same period the labor force increased in size about 5%. In M.C. County, whose population grew by only 8%, an increase in the labor force size of only 3% is seen. The exception to this pattern is Miss. T. County, which exhibited a growth in the labor force of only 1.8% with a corresponding rise in overall population of 7%.

As would be expected, those counties which showed the largest increase in labor force participation over the five year period also had the lowest percentage of persons engaged in agricultural labor. S.C. City, which exhibited the greatest increase in labor participation, had the smallest proportion of its labor force in agriculture during 1965, (representing only 11% of the total labor force). S.C.T. County, showing the second largest rise in labor force participation, had the second lowest proportion of persons engaged in agricultural labor, at 16%. M.C. County had 19% of its labor force engaged in agriculture and the third largest gain in labor force participation rate. Consistent with this inverse relationship, M.T. County had 35% of its labor force engaged in agriculture, and exhibited a decline in its labor participation rate. Apparently, many of those individuals (mostly Negro) who are displaced from agriculture failed to obtain jobs in the non-agricultural sector.

REASONS FOR CONTINUING UNEMPLOYMENT AND UNDEREMPLOYMENT

Interviews with local employment service offices, state and federal training programs, and with community leaders, conducted in the four areas studied, indicate that unemployment, underemployment, and non-participation in those areas remain higher than the national average. Possible explanations for the existence of these conditions despite the substantial growth of industrial employment in the areas include the following.

First, a new plant provides jobs not only to residents of the town in which it locates, but also to residents of surrounding counties. Second, jobs can be taken by new entrants to the labor force within the town. Third, the firm can bring with it employees from outside the region.

Many individuals who did not have jobs when industry first located still did not have jobs years later, despite the great number of industrial jobs created. This "hard core" is passed by in favor of the labor sources mentioned above. Many others get jobs but do not experience income increases comparable to that of the average industrial employee in the community. Reasons for this are discussed here under four topics: lower productivities of less-skilled labor; a disparity between skill needs and hiring standards, and related problems within the employment structure; racial discrimination; and problems of acculturation, health, and particularly education.

The following discussion is of only the conditions noted in the four study areas. Comments on employment practices result from interviews with plant managers and others. The conclusions drawn cannot be assumed to apply to all southern rural areas.

Management's Experience with Rural Labor - Low Productivity

An analysis of the location decisions of firms and their subsequent hiring practices is revealing regarding management's expectations of the labor market. There seems to be a strong tendency by corporate decision-makers who locate new branch plants in rural areas to expect that laborers at both old and new locations will have similar productivities. The difference in wage rates is therefore not seen as a reflection of different labor force marginal productivities: the entire decrease in wage payments is envisioned as an addition to the potential profits of the firm.

A worker's productivity in any given task is actually a function of:

(1) The inherent personality, physical attributes, and intelligence of the worker.

(2) The amount of imbedded capital investment which the individual brings with him when he first comes to an employer; this investment may be in the form of education, health care, and socialization given him by his parents, the society, and by other firms.

(3) The amount of on-the-job or formal training given the worker by his employer during the course of his new job.

(4) The amount of supervision given the employee so that he is not as dependent on his own skills, judgement, or discipline.

(5) The fixed capital equipment and operating routines which apply to this job.

Firms considering new locations have often assumed that factors 3, 4, and 5 will remain the same in any new plant operation. They then have assumed that the worker who comes to them, whose productivity at that point is determined by factors 1 and 2, will be similar in almost every way except wage rate to the workers they obtain at their present location. Even assuming that the two groups of workers are comparable in terms of factor 1, this assumption by management overlooks many critical facts.

First, workers in smaller southern towns are coming from rural settings and are not used to reporting to work every day at regular hours, or to working 8 to 10 hours in a highly disciplined factory situation with regular demands being placed upon their behavior by a machine process. They are not accustomed to working in a confined shelter with loud noises, the constant presence of supervisory authority, and the social necessity of interacting constantly with fellow employees amidst tension and pressures. Many of these workers are poorly trained by the managers' standards in personal hygiene. Workers' value systems, and therefore responses to wage and promotion incentives, may also be different. The phenomenon of backward bending labor supply curves in response to wage changes is a regular (reported) occurrence.

Second, the average prospective worker will have far less formal schooling than the average current employee, and the quality of any amount of formal schooling acquired by a prospective worker will be far lower than an equal amount of formal schooling acquired by the average current worker in the previous location. This lower level of education will in turn produce a lower level of basic skills (literacy, verbal ability, math, etc.) and thus a lower capability for learning on the job, for absorbing formal training by the firm, and for job performance.

Third, the prospective workers will bring less job experience and training with them. Where local economies are only beginning to industrialize, there have been few opportunities for workers to gain training from other firms. The informal skill development of the worker at home may also have been meager, due to relative unfamiliarity with mechanical processes.

Fourth, low incomes and public expenditures in the prospective area have left the health care investment in the prospective labor force much lower than at the first location. Prospective workers will miss more days of work due to illness, be less able on the average to stand the physical and mental strain of the job, and be more likely to be too short, weak, poorly coordinated, or mentally dull to perform a task expected at present of the average worker. Such physical and mental infirmities can be counteracted by higher motivation and willingness to work, but remain important for many kinds of jobs.

Fifth, the historic discriminatory structure of Southern rural society has produced disparities in the socialization, quantity and quality of education, job and home training, and health conditions for blacks and whites, which may be as great as the regional disparities between the current and prospective work forces. The discrimination has imposed an extra burden on the black portion of the prospective labor force in terms of psychological adaptability and ego identity, which directly influence labor's productivity. Numerous reports were given by well-meaning Northern managers in Southern firms of blacks whom they had tried to hire or to upgrade to supervisory capacity, who had failed because of their lack of confidence or ability to adjust to the tensions of interacting with whites. For whatever causes, too many of the black workers with sufficient basic skills tend to react in extremes--either becoming very submissive and dependent (and thus of limited use to an employer for upgrading) or becoming antagonistic (and thus creating problems in terms of potential friction with other employees or with management itself).

Management, then, tends to make the location decision ignoring the differences in labor force quality. This leads to disappointed expectations, and an over-simplistic attitude toward work skills and attitudes. Managers' inadequate understanding of human capital is accompanied by its psychological and intellectual resistance to change. Organizations tend to resist changes in routines that have worked successfully for years; individuals dislike the tension that comes with adjustment to new situations. The customary inertia of organizations in changing to meet new conditions is sufficient to retard adjustment by firms to the novel labor conditions at their new location. The difference between a good and a bad manager may be that the former can understand the source of new problems and quickly and frequently adjust to such change.

Options Open to Management in Using Rural Labor

The firms have seven basic options for coping with the problems of their rural labor force. These options are:

1. Train the labor formally to upgrade its skill potential. This training can be job specific (e.g., training a low-skill operative to do a higher skilled welding task) or for generalized higher skills (e.g., training a low-skill operative to be a mechanic or electrician capable of doing any one of several high skill tasks), or basic education (e.g., training an operative in arithmetic so the worker's trainability for higher skills is increased.) The training can be full-time, for part of the working day, or during evenings in conjunction with other productive activity by the worker during the work day. The training can be provided in-house or in collaboration with some outside agency, whether the local schools, a technical institute, CAP program, or CEP or other Department of Labor program. The training can be subsidized.

merely encouraged, or demanded by the employer.

2. Provide more on-the-job training to labor having the skill potential but lacking experience. On-the-job training involves putting an inexperienced man, having the minimum aptitude requirements for a job, directly to work to learn the skill while on the job. The firm then closely monitors the worker to minimize the cost of his errors.

3. Change the labor mix, substituting supervisory personnel for operatives. Management is able, if it desires, to increase the amount of supervision on the job and thereby reduce the amount of knowledge and aptitude a worker must have to be productive. This substitution is different from the increases in supervision which would obviously be necessitated by formal or on-the-job training (Options No. 1 and No. 2) in that the increased supervision here is permanent. With direct or on-the-job training, the employee eventually becomes sufficiently knowledgeable and skilled that increased supervision is no longer needed.

4. Introduce new machinery and operating procedures requiring a lower quality of labor input.

The difference between Options No. 3 and No. 4 is that in No. 4 substitutions are made between technology and labor, while in No. 3 substitutions are made between education and labor.

5. Import higher skilled or better educated labor from outside the region.

6. Impose high hiring standards and pay a higher wage to get the kind of productive worker desired.

7. Accept a rate of productivity lower than had been anticipated, and not attempt to adjust productivity back to the norms of the previous plant location.

The response of firms in the towns studied has usually been some compromise between training, increased supervision, higher wages, and accepting lower productivity. Firms would tolerate only marginal wage increases, so that option was not particularly exploited. Since supervisory personnel were as hard to come by as skilled workers, the options of direct training and permanently substituting management for labor were restricted in exploitability.[1] The sizable regional difference in wages made it feasible for managers to accept a lower rate of productivity, but not without complaining. The most frequently exploited option, however, was on-the-job training. The "buddy system" was generally implemented whereby a new worker learned from an older experienced worker. Increased temporary supervision was provided but minimized. The chief cost to management was the rapid turnover of hirees who didn't make the grade.

[1] This scarcity is cited not only by firms in the towns, but even by firms in S.C. and Miss. Cities. One firm in S.C. City complained that it was unable to open a new production line which would employ some 40 unskilled laborers, for want of a few good middle-level supervisors to oversee the line. The firm had discovered years before that by increasing supervision, it was able to use unskilled labor, with less than 8th grade educations, effectively in jobs for which plants in its previous location and for which it initially in its new location had required 10th grade or high school educations and machinery experience. Yet as S.C. city had grown, it had become increasingly harder to get laborers who could be upgraded to supervisory positions. The firm now stresses the middle-level management deficiency to outside prospective firms, warning them they would have to import most such managers. The firm blamed this deficiency on the low quality of South Carolina schools. Several other firms justified their high education requirements on the basis that requirements were necessary to insure both that a sufficient number of capable workers would be available for upgrading to supervision and that most workers could be upgraded to higher skills if automation did come.

Some of those options are not particularly viable. It is usually prohibitively expensive to import labor. Of the 19 non-native firms interviewed, only six firms attempted to import more than ten workers when they set up their new plant. Each of these six cases were firms employing more than 300. The largest known importations[1] ran to less than 20% of the firm's end-of-the-second-year work force, and these importations were of managers, engineers, and top technicians, and craftsmen who were to be given responsibility for training the new work force and setting up production.[2] Similarly, substituting machinery for labor is not viable in the short run. First, managers do not perceive much opportunity for such substitutions. Second, the psychological and organizational resistence to basic change in the production and operating routines is great.

THE DISPARITY BETWEEN SKILL NEEDS AND HIRING STANDARDS

Formal Education Qualifications Represent an Important Discriminant

Differences between actual needs by firms and the qualifications which they required were expressed in several ways: Standards for hiring basic production workers varied between the two states and in significant fashion. In South Carolina, only two of the fourteen firms interviewed, representing only 9% of their total employment, had a formal minimum educational requirement for any employee. In Mississippi, five of fifteen firms representing 57% of total employment had such requirements. About the same percentage of employment was covered by the requirements in both Miss. City and Miss. Town. The requirements in all but one case were for 9th or 10th grade educations. One employer had a double standard: 6th grade for Negroes, 9th for Whites. The states also differed in terms of the testing given job applicants. Twelve S.C. firms administered their own tests to employees while only four firms did so in Miss. Since the State Employment Service (ES) administers tests to many applicants before referring them to employers, the Miss. firms which used ES were not really letting job applicants go untested. It should be noted, however, that the Miss. firms were in fact substituting government-designed tests and test standards for their own. Interestingly, the firms which did rely heavily or even partially on ES in South Carolina nevertheless administered their own company tests to ES referrals. The most frequently given test by firms was the Wonderlic test for reasoning aptitude; some firms also tested in arithmetic; some gave specific mechanical tests; some measured dexterity. All tests required the possession of basic literacy skills for doing well, although only a few firms admitted that literacy was necessary as a minimum aptitude for successful production performance.

More than half the firms relied heavily on interview impressions along with educational background and test results. Managers who described the characteristics they looked for in interviews stressed alertness and basic communication ability. In several cases, poise and appearance were also emphasized. As part of the interview procedures of most firms, applicants were required to fill out forms, another check on their literacy.

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[1] Two firms which had large importations would not estimate their employment totals. Other sources in the community gave no impression, however, that the importation had been abnormally large in terms of the total work force.

[2] Several firms in recent years have tried unsuccessfully to import middle level supervisory and skilled personnel from bigger cities out-of-state. The wages the firms can offer are not sufficient to entice such workers (or perhaps their wives - as some managers insist) to endure the economic, social, and psychological costs of relocating to the relatively amenity-less towns surveyed in this study.

The figures below show the education characteristics of the aggregated labor forces with formal education requirements and without such requirements. It is clear from the tables that in each town, the average firm with formal education requirements had a much higher percentage of its work force with high school degrees and a much lower percentage of its work force with less than seven years schooling, than the average firm without education requirements. The firms that had educational requirements were important within their local economies. The firms tended to be large with employment respectively of 175, 250, 300, 520, 522, 613, and 800. *Formal education requirements would therefore appear to be a major discriminant in determining who gets hired.*

The education qualifications needed by workers to meet formal minimum standards were quite different, however, from the qualifications needed to win jobs in the competition with their peers. The surplus labor markets gave management the advantage in early years of grabbing the cream of the labor market for jobs with skill needs far below the potential of the worker filling the job. The distribution among firms *without* formal education requirements of the *percentage of employees having at least a high school degree,* was as follows:

S.C. Town	70, 55, 50-60, 50, 30, 12, 5
S.C. City	55, 10, 10, 5
Miss. Town	60, 25, 10-15, 0
Miss. City	50, 45, 40, 25, 10

Thus, even firms without formal education requirements often ended up with a sizable portion of their labor force with high school degrees. In Miss. City, the percentages in several such firms were higher than in firms with formal requirements. The percentage distribution in the latter firms was as follows:

S.C. Town	none
S.C. City	98, 98
Miss. Town	70, 15[1]
Miss. City	53, 45, 20[2]

Education was thus informally being used by firms as a filter for screening out the best from a large number of applicants having the necessary qualifications.

That a large disparity existed between the actual requirements for jobs and hiring requirements is indicated further by 1) the lowering of formal requirements and qualifications as the labor market tightened, and 2) the large disparity between firms in the formal requirements for the same kind of job. As more firms arrived and/or expanded, the surplus in the labor market got smaller and firms found that previous cut-off points in education and test scores were too high to generate a sufficient number of workers for the firm's needs. More than three quarters of the firms in each town stated that this had been their experience, and that requirements had been gradually lowered. One firm stated that when it first located, it had hired primarily high school degree-holders and demanded high score results on its tests. The amount of education and the scores it demanded for the same jobs had fallen continually over the previous four years. As the market continued to tighten, it had in the last year given up testing altogether; at the time it abandoned testing, its test requirements were less than 50% of the score requirements it had imposed for the same jobs 3 years earlier. Over half of the other firms interviewed expressed willingness to accept any healthy male with basic literacy for most of their operative positions; yet in several of those firms, 25-40% of the workers currently employed in those jobs, who had been hired in earlier years, had high school degrees.

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[1] This firm was a confessed discriminator and had raised standards to aid exclusion of undesired Negroes.

[2] This firm was long established in the area with high wages and a relatively old work force. The high standards reflected the growing education of the more recent entrants to the work force. Whether or not an employee needed more formal schooling in order to do the kind of work firms required, he had to have the schooling if he wanted to win one of the scarce jobs.

Even more intriguing, many firms were currently employing workers with minimum literacy skills for the same jobs for which other firms in their state and even city were requiring tenth grade educations and high test scores as minimum qualifications. The disparity was greatest in the metal-working industries. For example, die-maker jobs were considered very skilled positions for which few workers were available. Most firms imported their die-makers or imposed some of their highest qualification standards upon applicants for the in-house training programs. Yet one firm, started by town natives, was successfully training relatively large numbers of die-makers each year out of raw recruits taken off the farms. Almost 90% of its labor force had less than six years schooling. Its trainees and instructors however, were regularly being pirated by new firms in the town, in the state, and even in other states. Another firm had by far the highest skill needs of any industry in its town. Yet its plant manager, whose background was production and who supervised training, admitted that he believed that not even literacy was required for most of his jobs.

The disparity in requirements imposed by different employers for the same skill level of work can also be seen if firms within the same industry are analyzed. Table II-3 compares the education, age, sex, and racial characteristics of the work forces of firms engaged in the same lines of work. Firms in the same industry show wide variations in the makeup of their labor forces - variations which imply that the requirements set for hiring have no necessary relationship to the skill needs of the work. The pattern of variations in Negro employment suggest that the extent of Negro employment was far from explained by a firm's preferences toward education, age, or sex in the makeup of its labor force.

While the disparity in requirements implies that minimum requirements for employment in firms are often arbitrary and artificial, the disparity does not imply that the requirements are irrational from the perspective of the firm. Firms which were accepting "lower quality" workers were paying more money for training and supervision, absorbing more indirect labor cost through higher turnover, absenteeism, and perhaps accidents, and obtaining a lower level of productivity than they had previously when they were hiring the better educated and more experienced workers who were the cream of the labor surplus. The few firms which maintained high hiring standards were choosing to save on the above costs, while accepting the loss of production and efficiency cost caused by jobs remaining vacant for longer periods. That firms should complain about the tightening of the labor market is not at all surprising. Labor was in fact costing them more and earning them less than previously in the same location.

Table II-3

Characteristics of Workers in Selected Industries, in the Areas Studied

Location	Pct. with Years of Schooling < 7	7-10	12	Pct. of Age < 25	25-45	>45	Pct. Female	Pct. Negro
Sheet Metal-Working Firms								
Miss. Town	0	40	60	82	11	7	0	45
Miss. City	0	60	40	50	40	10	50	16
S.C. City	50	40	10	50	40	10	35	50
Steel Products								
Miss. Town	58	30	12	5	58	37	5	75
Miss. City	5	50	45	25	70	5	5	55
Cut-and-Sew								
S.C. City	50	40	10	25	40	35	100	—
S.C. Town	0	45	55	10	73	17	90	30

Source: Interviews with firms in the four locations studied.

What appears to have happened is that the firms, having kept educational standards as high as possible for as long as possible, have drawn labor from outside the town, from other firms, and from previous non-participants (such as relatively well-educated housewives.) At the point where lowering the standards starts producing turnover costs higher than the firm considers acceptable, the firm stops expanding. Beyond this point, education and training must be substantially invested in, in order to break this bottleneck. (The fact that this has not taken place in any major way is discussed in Section III.on public service.) The remedies to the problems suggested in this discussion appear to be two: improve the educational offering to the disadvantaged population, and reform the hiring standards to eliminate disparities between actual needs and stated requirements.

Regarding the education levels attained by different segments of the population, there are significant differences apparent. Among adults in these communities, both white and black, many are undereducated. In general, illiteracy was quite high (in Miss. Town a recent study showed that close to 90% of Negro adults over 30 possessed an average education of 4.5 years). Generally whites are better educated, but there is a very high number of non-graduates.

The problem of poor education is, however, not restricted to adults. In the Negro schools in all of the communities, performance on national standardized tests was very poor-many scoring below the 10th percentile. In one group of 75 students applying for entry into the Air Force, about 3% passed the mental examination. White students generally are doing reasonably well, with many scoring well above the national averages. The white schools generally scored slightly above the national norms, but well below the norms of suburban schools around the northern cities.

Dropout rates, among both Negroes and whites, are dropping sharply. Both groups are trying to keep their children in school. In S.C. Town, the dropout rates for whites and Negros were both below 15% for this year's graduating class, which is well below the national average. While we cannot prove it, there seems to be a tendency in these industrializing communities to keep their children in school for a longer period of time than surrounding agriculturally based communities. While surrounding communities probably have a reduction in dropout rates due to increasing national emphasis on the importance of education, school superintendents in the communities studied generally reported that their high schools held their students for a much longer period than did the "rural schools."

The Health Impediment to Employability

The extensiveness of *poor health* was documented in the PHS statistics, as well as in interviews with many physicians. A physician in Miss. City, recently arrived from Milwaukee remarked that by northern health standards, most Negroes and many poor whites would be considered unhealthy. Anemia, pneumonia, hypertension and a variety of other morbidity characteristics (reported by the State Health Surveys) all suggest that health is a *significant* problem in the work force. Physicians felt that low energy level due to poor diets, continual colds, and other health problems kept many from full time work (or from the desire to seek employment). While there were a great many younger men and women who are reasonably healthy, health seemed to be a constraint for many, perhaps older workers, who might otherwise more aggresively seek employment. Full documentations of the dire state of health of

Negroes in the Mississippi Delta is contained in the *Mound Bayou Health Survey* prepared by the Tufts Medical Center. In one small community of Negroes, 2,500 in size, over 900 families lived on incomes of less than $800 annually. It should be remembered that milk and eggs cost the same in the rural South as in Washington, D.C.

Racial Discrimination as it Affects Employment

While the characteristics of race, sex, and age are significant in themselves, it should be recognized that the Negro is typically less well-educated than the white; the woman, than the man; the older worker, than the younger. These characteristics must be borne in mind through the next sections to prevent too-quick conclusions of prejudice in employment practices.

Few Negroes work in high wage industries. The three largest high-wage industry firms surveyed employ 10, 15, and 12 percent Negroes respectively. While the smaller high-wage industry firms do employ considerably higher percentages of Negroes, they offer few openings, in total number. The bulk of Negro employment is in medium-wage metal-working industries and in low-wage industries. The firms employing large numbers of Negroes are heavily production-oriented. Those firms employing at least 50 Negroes, with Negroes constituting at least 25 percent of the total work force, have production employment percentages of 98, 95, 95, 95, 95, 95, 90, 78, and 77, in contrast to the survey average of 87. With one exception, none of the firms with high long term growth or high investment per employee has found the need to employ large numbers of Negroes. Correspondingly, those firms with low investments per employee rely on work forces almost entirely Negro or female. Thus, the high productivity jobs in the most promising industries are largely closed to Negroes. It might be noted that these firms, in a position to pick and choose, very likely opt for the best educated workers. This factor, rather than racial prejudice, might account for the plight of the Negro in this situation.

There is ample evidence, despite the education and skill issue, that racial discrimination is, and even more importantly was, a major factor in the hiring practice of firms. Several firms admitted that they had avoided hiring Negroes prior to the Civil Rights Act and the tightening of the labor market lest they alienate the white community. One firm admitted that it still had an agreement with the local ES office that Negro female applicants would not be referred to the firm. Most of the workers who had long tenures of more than a decade with their company were white; some northern plant managers transferred South admitted that this pattern reflected the whites-only hiring policy of past decades. In one sizeable plant owned and managed by a long-time prominent family of the area, Negroes comprised only 16% of the work force even though the work was low-skilled and 65% of the current work force had less than seven years schooling. In a nearby firm that had been located in the same town for almost 30 years, the work required was slightly lower skilled but 65% of the work force also had less than seven years schooling; the Negro percentage of the work force was 88%. Plant discrimination also had a continuing influence via its impact on the word-of-mouth recruitment system. Where Negroes had previously been shut out from employment, reports of job openings might not be greeted with sufficient credulity by the Negro labor force so that actions would be taken which might confirm or disprove the reports. Where few Negroes were presently employed in a firm, that firm would have few "messengers" to the Negro community and especially to the hinterlands–the location of most of the Negro unemployed--to spread the word of job opportunities. This latter problem is magnified when, because of a badly functioning (or discriminatory) housing market, low incomes, and poor public service levels, the Negroes who must be reached are still living in the rural hinterlands with poor transportation.

Thus, because of low worker productivities, actual and perceived education requirements, health and acculturation problems, and racial discrimination in hiring, the "problem" segment of the small town population is little touched by an industrial surge and the growth center phenomenon. A very real and important question for a Federal agency then becomes how can growth be encouraged which *will* spread to all segments of the population?

The usefulness of public policy in solving the distribution problem is addressed in the following sections. The section immediately following, on public services, views the past and potential range of public activities aimed at a solution of the problem.

SUMMARY

This section has discussed the ways in which the potential labor force in the areas studied has been understated, and has examined factors which have led to unemployment, underemployment, and non-participation.

Firms appear to be inconsistent regarding what educational requirements are relevant for various manufacturing jobs. Because of this, these requirements have acted as (conscious or unconscious) discriminatory devices. Furthermore, firms have not shown a desire to train less-skilled workers as an alternative to being able to hire workers possessing higher education and skill requirements.

It is interesting to note, in the light of the growth center discussion in Section I, that the towns studied, in attracting industry, have subsidized employment for a county population, while retaining to a large extent their own hard-core unemployment problems. If a newly located firm employs whites from the surrounding county, black unemployment in the town remains. From the federal standpoint, there has been a net gain, in that the county, unemployment rate has declined. Whether local government is concerned or not, it is handicapped by a lack of accurate employment situation: It can less effectively sell the town to new industry on the basis of a potential labor force; it may therefore feel compelled to offer other inducements, some of which are shown in Section IV to be inefficient and ineffective.

The federal government agency has the opportunity to act in an information-system-reform capacity, calling the attention of local government and industry to this problem, and providing assistance so that solutions may be provided.

SECTION III

PUBLIC SERVICE PROVISION

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III. INTRODUCTION

The introduction to this report specified an analytical structure which contained three principal actors: local governments, industrial firms, and the federal government. Although important roles in the growth process are played by other parties, these are considered supporting parts, in terms of answering the major questions posed by this study. The federal government, in its assistance role, inevitably finds itself reacting to events set in motion by local governments and industrial firms. If the goal of federal aid is to provide assistance to a minority population which is not adequately served presently, the first question federal government must ask is: Why has this service not been provided on the *local* level?

Public services are all those facilities and services provided to a population by government on all levels. In this section, we analyze the local government's role in providing these services, and secondly the impact of industrialization on service provision. Specific reference will be made to the growth factors set forth in Section I, and particularly to the major community problems noted in Section II. The major questions asked are: how well do public services of various types solve growth and poverty problems, and how do local government and industry interact within the attempted solution represented by industrialization? The answers to these questions prepare for Section IV, which addresses the question of how growth should be subsidized.

The Importance of Services

Public services in the small town, as in any city, are of dual importance from EDA's standpoint; they have a profound effect on both growth and on the distribution of growth benefits. Their influence on growth takes place in several ways:

1. Services such as street construction and maintenance and protection services put a positive limit on how large a town can become in terms of physical space, and therefore in population size.
2. The size of services such as school and hospitals restrict the number of people living in proximity to the town, and who use the center's services.
3. A broad range of public services, from water supply to schools and recreation, act as attraction factors to industrial location. (These are increasingly important, as noted in Section I.)

Regarding the distribution of growth benefits, the impact of services is direct and important:

1. The quality, location, and entrance requirements of schools, hospitals, libraries, recreational facilities and other essential and desired services are factors which determine whether the disadvantaged population is served or not served.
2. Services which develop and acculturate human beings can determine whether, and how quickly, the disadvantaged can be integrated into the mainstream of economic activity, principally, industrial jobs.

The important point is the one which links these two concepts: if the distributional (equity) goal is not achieved, the growth goal will suffer through out-migration of population which is not served. This feedback element welds growth and distribution programs into a closed system, and this fact cannot be overlooked by federal policy vis-a-vis small towns.

Location studies show an increasing interest on the part of industry in services and amenities: Assuming that the location of more firms could solve all the town's problems, the town would want to offer the prospective firms more than just the necessities. Firms often look for adequate housing, education, and health facilities, in addition to the more standard infrastructural services. If it is accepted, moreover, that certain social upgrading must accompany the training of hard-to-employ groups, then housing, education, health, and other social services assume a more important role in the long-run attraction of industry.

Despite the many problems involved in obtaining reliable responses from industrial firms on why they locate where they do, we nevertheless have more information on this topic than we do on why *people* move. The migration responsiveness of different population groups to service quality in small towns is a topic deserving of research but which unfortunately has received little attention.

One theoretical view of public service provision[1] would assume that each town determines a unique public service mix, and that consumer-voters move to that town whose service package best satisfies them. In the real world, this view is somewhat realistic, since public service characteristics are largely set by a relatively small number of people. The reaction of the balance of the population (non-policy-makers) as suggested above, depends on several factors:

1. **Income**: Public service quality will matter most to those not able to pay for a substitute in the private sector.
2. **Quality Relative to Other Places**: If all schools in the region are nearly as bad, it does not make sense to change.
3. **Information**: In order for one to move, he must know of a more desirable place elsewhere; this factor is often a function of distance, as well as sophistication.
4. **Cost**: Those moving will leave little behind. An investment in a community, which may be in terms of land, job, or family, may overcome service quality differences.

Factors 1, 2, and 4 are most significant in Negro out-migration trends. The poor Negro leaving Mississippi cannot pay for privately-provided services (1); he has little of value in dollar terms to leave behind (4); and so he moves a considerable distance to an environment which he thinks will offer significantly better services – the Northern city. It is notable that distance and sophistication (3) do not play a large role; knowledge is limited to the example set by friends and relatives who have moved before, and the Negro migrates long distances. White out-migration trends tend to be motivated differently. Since public services are less likely to be unequally provided in an injurious way to whites, white out-migration is subject to the distance factor (3). Since whites move within the region, and since public service variation within the region is not great (2), white movement is more sensitive to variations in the private sector: jobs and retail availabilities.

Individuals move when information is provided to them that indicates a significant opportunity to increase their welfare elsewhere. If blacks do not obtain information that such differences exist in the region, they will move from the region. Based on the recent past, this would seem often to be an ill-advised decision, based on no or faulty information about opportunities available in northern cities.

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[1] Tiebout, Charles, "A Pure Theory of Local Expenditures," JOURNAL OF POLITICAL ECONOMY, Vol. 64, p. 416-424, Oct., 1956.

THE LOCAL GOVERNMENT ROLE

A knowledge of how local governments are motivated and constrained in their public service provision functions is useful to federal agencies for several reasons:

1. The federal agencies function as supplementary and remedial sources of funds. They "fill in" where local government does not or cannot, and the effectiveness of a dollar of federal money is profoundly influenced by the direction which local funds have already taken.
2. If federal agencies have over-all plans for regional or national development, the possibility for success will be affected by whether local interests conflict with or are consistent with these plans.

First, what are the dimensions of the service-provision decision process? Services in towns are provided by town and county governments. Education provides a third administrative unit, the school district, which in many states has a jurisdiction corresponding to that of the county. The administrative units are expected to produce services in certain standard categories: The town provides utilities, street maintenance, and protective services; the county provides health; the state provides welfare and assistance in other categories. Each town or county government possesses an "habitual" spending pattern. Once service levels are established, yearly decisions are made in response to quality changes and a deterioration of quality is alleviated to an extent dependent mainly upon revenue available. In other words, the generally applicable decision-making stimuli are *needs* and *resources.*

Several characteristics of this situation are important:

1. **Habit**: An official is "locked in," to some degree, to a pattern of *what* is provided: it is difficult to add new services.
2. **Minimum Service Level**: The members of the community have general expectations as to what quality level is expected in each service category (maximum number of bumps per mile on main streets, response time for a fire engine).

Since these services are, at least in theory, generally available to the community at large, expenditures are financed by taxes imposed by the town, county, or school district on all citizens, or by debt which is serviced by such tax collections. The local official's popularity (and indeed, his ability to remain in office) depends upon his ability to satisfy the taxpayers' minimum expectations regarding service levels, while requesting few increases in revenue contribution from the taxpayers.

It is important to emphasize that this is not an environment which produces frequent stimuli to increases in service provision or to new services. (It is true that an official may in fact gain in popularity by creating "monuments" –schools, hospitals, etc., which enhance community pride. But it is unlikely that his popularity will continue to climb when the taxpayers begin to feel the pinch imposed by such good works.) In a relatively "traditional" society– not familiar with rapid change – this depiction of a system which has significant disincentives to innovation is realistic. Moreover, the town official is limited not only by the financial constraint imposed by the efficiency of the tax system and the town's debt capacity, but by another constraint consisting of his own political and administrative ability.

The decision forum for changes in service provision is normally the city council; a very small number of people are directly involved in these decisions. For major new facilities requiring a new debt issue, a community referendum is sometimes, but not always, required. Other than at election time, local representatives do not usually receive constant inputs from all segments of the community on the perceived quality of public services. The important point to note here is that the few decision makers usually act in response to pressure from a fairly limited number of citizens.

Faced with a new demand for services, the official will look first to expected increases in revenues, given no change in policy which would increase the tax burden on the population. Expected revenues may come from earmarked funds (water user charges, for example) or from general funds, supplied by property and sales taxes. Second, the official can make policy decisions which will yield new revenue for general purposes (from tax increases) or for specific purposes (from new debt). Third, the official may seek revenue from extraordinary sources, which will not place a burden on local taxpayers; federal and state assistance programs are an example. Within a service which bears a user charge, such as water supply, any increase in provision is compensated by the accompanying increase in revenue. Increases in services like protection or street maintenance, financed from general revenues, are dependent on additional tax revenue paid by the new citizens who receive the incremental addition to total service provided. A new capital or facility expenditure, on the other hand, is financed by issuing a new debt instrument. The amount of debt allowable depends for the most part on assessed property value in the town.

INDUSTRY, POVERTY, AND SPENDING CONSTRAINTS

Given these constraints and behavioral characteristics, local government's options are significantly affected by population growth and industrialization. If population increases, and if the new citizens are taxpayers, the town's services can expand, particularly if land values rise and if new land is annexed. Two demands for service increases other than from population growth occur, however; these are demands felt from new industry and from previously deprived sections of the population which have either suffered service deterioration or have never received services. In the latter case, it can be seen that, since no increase in land values or tax revenue occurs, increased services or new capital investment requires more burden being placed on higher-income tax payers. In the case of new industry, capital investment which is undertaken to support the firm is usually undertaken with the expectation of amortizing it, directly or indirectly, from the additional income expected through future tax resources. If it is expected that industry will contribute more through payroll, and through property and income tax, than it requires in public expenditure, new industry can be seen by local government as a way out of a boxed-in situation. Impediments to this expectation being realized are discussed below.

Revenue Acquisition in Small Towns

The town may take the following steps to produce additional revenues:

1. It may reform the tax collection methods, providing more revenue per capita.
2. It may require payment for services by specifically identifiable users -- for instance, by levying sewer as well as water fees.
3. It may, as a matter of policy, risk a temporary deterioration in a conventional service in order to provide a new service from general revenues.
4. It may carefully limit its debt, so that both conventional and new services might be provided from debt proceeds.
5. It may annex high-income areas contiguous to the town, increasing tax revenue per capita for the town as a whole.
6. It may actively solicit state and federal assistance for new services.

The Town's Taxation Policy

If the town is to maximize its revenue from the existing tax structure, it must transform new income and changes in property value into tax receipts. If the town and county sacrifice tax revenue by giving tax holidays, by not periodically assessing property value, and by refusing to adjust tax rates and assessment ratios, than this revenue may be foregone. To the extent that industry is responsible for straining public facilities which require improvements, town officials may require industry to pay for the improvements through special assessments; this is not often done, however.

The practice of allowing tax holidays to new industry represents a sizable loss of funds (the return to this "investment" is analyzed in Section IV.) For example, in South Carolina Town, the second largest employer (650 employees), and located outside the city limits, was in 1966 paying$74,301 in taxes to the county. During its five year tax holiday, if the plant had had the same assessed value, it would have been paying $50,789 of that amount in school taxes, but the county would have been giving up the remaining $23,512 for five years, or a total of $117,560. On another employer in S. C. Town, located inside the city limits and employing about 100, the city was giving up $9,535 per year during its tax holiday period, or a total of $47,675. The total revenue intake in 1967 was $386,000.

The policy of state, county, and town on these highly related matters – on the one hand, assessment currency, assessment ratios and tax rate, and on the other hand tax holidays for industry – is reflective of local philosophy, which may be criticized on social welfare grounds. First, raising taxes is an unpopular move for a town official, but if it is not done, those who have benefitted to a greater or lesser extent from progress are taxed inequitably, and revenues which may be used to mitigate social ills are not collected. Second, the assumption that industry brings only benefits and therefore should be "paid" is illogical; *only if a total assessment of the benefits and costs to the community of industry were made could an economically rational decision to release industry from a tax burden be made.*

The largest portion of local revenues comes from the city property tax (with the second largest portion coming from rebates from the locally-collected state sales tax.) Three policy variables affect the ability of the town to transform land values into tax revenue:

1. All real property should be assessed frequently, to produce a realistic market value figure.
2. An assessment ratio, which varies by locality, is applied to the market value figure to yield a "total assessed property value."
3. A tax rate per $100 (or "millage rate") is applied to the total assessed property value to determine the tax bill.

A town may therefore influence its revenue by varying its frequency of assessment, its assessment ratio, and its tax rate. The following table summarizes the performance of our four towns:

All figures, 1965		(a)	(b)	(c)	(d)	(e)
	Percent Assessment	**Total Assessed Property Value**	**Population (Approx.)**	**Value per capita (a-b)**	**Tax Rate per $100 (of a)**	**Tax per $1000 of mkt. val.**
S.C. Town	9 1/2	706,570	5,000	141	6.50	6.17
S.C. City		11,326,820	27,000	419	3.90	1.75
Residential	4 1/2					
Industrial	9 1/2					
Miss. Town	33 1/3	12,982,851	12,000	1081	2.80	9.24
Miss. City						
in city	33 1/3	65,869,160	47,000	1401	1.58	5.26
outside	22 1/2					

It was stressed by officials in all four locations that the local property tax system seriously needed reform. Both small towns stated that a city-wide property reassessment was imminent. S.C. Town illustrates that a low assessment ratio may be combined with a high tax rate to have the overall effect of producing more revenue than a town with a higher assessment ratio. In columns (b) and (c), approximate 1960 population is applied to column (a) to yield an assessed property value per capita. This shows that the combination of obsolete assessment and assessment ratio yields significantly lower results in South Carolina than in Mississippi. It is also notable that, although the smallest town had the least "wealth per capita" (column c) and the largest town the greatest wealth per capita, the small towns have higher effective tax rates than the larger.

Annexation

In addition to tax revenue and debt, annexation is a second method by which a town can expand its revenues; obviously, the section annexed must yield more revenue than it places in burden on the town. Therefore the annexation of a high-income area may be viewed as a progressive revenue-acquiring policy, where the annexation of a low-income area is a welfare gesture. Taken together, the high income area may yield enough additional taxes to pay for the service burden produced by the low-income area annexation.

There is no significant legal constraint to annexation in Mississippi. In South Carolina, however, the town must receive the written permission of 50% of the residents, and 75% of the landowners, in areas to be annexed. Both South Carolina cities have pursued a vigorous annexation policy, but have often failed in their efforts. In each city, the last annexation attempt has ended in the courts, delayed over technicalities raised by objecting residents of areas to be annexed. In Miss. Town, which has no such limitation, the government has annexed small areas almost every year. The mayor in Miss. City spoke of the difficulty involved in annexing low-income areas because of the net cost of such an action. He also said that he was not particularly anxious for the town to continue growing in area, although this statement conflicted with his feeling that the growth of urban sprawl was probably inevitable.

Debt: Willingness and Ability to Incur It

Although tax revenues and user charges can be expanded to cover operating expenditures and unusual items which are relatively small, most larger capital expenditures are financed by incurring new debt.[1] A town's debt policy - willingness and ability to incur debt - is subject to the limitations outlined above: legal, market, and psychological.

Legal limits on debt vary between states and sometimes within states. The following table shows these limits for the Mississippi locations, which are based on 15% of assessed property value for general obligation bonds and 20% for industrial bonds.

Towns	S.C. Town	S.C. City	Miss. Town	Miss. City
Year		1967	1965	1965
Limit on Gen. Obl. Debt		Under Review	1,947,000	9,880,000
Current Debt	none	3,203,000	1,431,000	6,995,000
% Reached			73.50	70.80
Limit on Revenue Bond Debt		Under Review	2,596,000	13,173,800
Current Debt		2,535,000	1,347,000	2,332,000
% Reached			51.88	17.70

The smaller the town, the less likely that bonded debt will be used to cover capital expenditures; federal assistance therefore becomes the alternative. In this comparison between Miss. Town (roughly 12,000) and Miss. City (47,000) there does not appear to be a "market" constraint handicapping the relative ability of the smaller town to issue debt; however, the smallest town has no debt other than an EDA loan, and the generalization about the small town's difficulty holds. S.C. City, by contrast, has considerable debt outstanding, and is actively issuing more. Industrial revenue bonds were not legal in South Carolina until recently, and therefore do not appear. Industrial revenue bonds provide an alternative to the donation of plant and infrastructure to industry, and in that sense economize resources.

Revenue policy: Summary

Town growth, represented by an increasing population and number of industrial firms, produces both an increase in need and in opportunities to add to revenues from which services can be provided. Much procedural reform is needed, however. Towns could better take advantage of the revenue-producing benefits of industry by reforming assessment procedures, increasing taxes, eliminating tax holidays, utilizing debt capacity to the extent possible, and annexing higher income neighborhoods. While it might seem that these changes would simply reduce the value of the town's incentive "package," to industry, it appears instead that these are marginal factors from the firm's perspective but major resource drains from the town's perspective. (See Section IV.) Industrial revenue bonds can help towns provide incentives to industry without giving services away. Small towns seem to be revenue-limited both by problems in marketing bonds and by low taxes.

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[1] Debt can be assumed by the state, county, town or school district. On the local level, it is usually undertaken in the form of either revenue bond or general obligation bond; the first category may be either industrial or non-industrial.

INDUSTRIAL IMPACT ON SERVICE PROVISION

It might be expected that the additional income which a new firm brings to a town would provide an escape from the constraints described above. A survey of the four towns revealed the following major effects of industrialization on service provision:

1. A demand for public works, or "industrial infrastructure" prior to location.
2. A strain on public works after location, requiring additions to capacity.
3. The attraction of a labor force to locate in or near the town, resulting in increases in "household" public service demand.
4. An increased tax revenue intake, allowing expansion of public services.

Before attempting a calculation of the net effect of these factors, it is necessary to take a closer look at how industrial needs influence public works expenditures. The reasons why this happens are simply stated, and are set forth here with anecdotal support from the field studies. First, extensions of water and sewer systems are required for newly locating firms which locate on the outskirts of towns; they locate on the towns' outskirts either because of non-availability of land and high land prices in the town, or because county taxes just outside the town boundaries are lower than the city taxes inside. The establishment of "industrial parks" is an expression of this phenomenon. Very few of the industrial firms in the towns surveyed were located within the city limits, with the exception of Mississippi City, the largest. Second, the capacity of water and sewer systems in most small towns were not constructed with large water-using and effluent-producing industrial firms in mind. The strain which towns finally find on their public works systems can quickly reach crisis proportions, as it did is S.C. Town. This can result in greatly increased spending, per capita, on water supply and sewer service than was common before.[1]

The appropriate analytical technique by which to support this hypothesis is a cross-sectional analysis which correlates public service spending in various categories with various manufacturing variables. The only data source available appears to be the U.S. Census of Governments, and differences in categories used for reporting expenditures by small towns weakens any experiment using this data.

In addition, the time lags between dates for which manufacturing variables can be obtained (1950, 1960 Census) and the dates for service expenditure (1957, 1962, 1967) cast even more doubt on the validity of any such experiment, since it is the lag between manufacturing growth and service expenditure which suggests a causal relationship. A third problem is that detailed spending data is only given for towns of over 10,000 in 1960, which eliminates many of the smaller towns for which the hypothesis is expected to hold. Recognizing these problems, a small-scale analysis was nevertheless attempted, using the 33 cities in South Carolina and Mississippi for which the 1960 Census of Population and 1962 Census of Governments provided data.

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[1] This is, of course, more true for large water-use firms than for the average. At the other extreme, there are firms content to dig their own wells. A fair generalization would be that a sizable percentage of manufacturers influence towns to spend more per capita on public works than they would have in the firm's absence.

Dependent variables used were:

1. Percent population change, 1950-1960
2. Total expenditure per capita in 1962
3. Per capita expenditure on water and sewer in 1962
4. Per capita expenditure on police and fire protection, 1962
5. Per capita expenditure on streets and highways, 1962
6. Percent of Negroes migrating from the county containing the town, 1950-1960
7. Percent of housing in town classified "standard", percent change, 1950-1960
8. Per capita expenditure on schools in county containing the town, 1962
9. Debt per capita, 1962
10. Median family income per capita, 1960
11. Intergovernmental revenue per capita, 1962
12. Percent population change, 1960-1965, estimate

Independent variables used were:

13. Percent change in manufacturing employment, 1950-1960
14. Percent of total employment in manufacturing, 1960
15. 1960 Population
16. Median family income, 1960
17. Per capita debt, 1962
18. Per capita intergovernmental revenue, 1962

Dependent Variable:	Significantly correllated with:
1. Percent population change, 1950-1960	Median Family Income, 1960 (+) Percent change in Manufacturing Employment, 1950-1960 (+)
2. Total Expenditure per capita, 1962	Intergovernmental Revenue per capita, 1962 (+) Percent Manufacturing Employment to Total, 1960 (+)
3. Per Capita Expenditure on water and sewer, 1962	Inconclusive
4. Per Capita Expenditure on police and fire protection, 1962	1960 Population (+) Percent Change in Manufacturing Employment, 1950-1960 (+)
5. Per Capita expenditure on streets and highways, 1962	Intergovernmental revenue per capita, 1962 (+) 1960 Population (+)
6. Percent of Negroes migrating from the county containing the town, 1950-1960	Median family income, 1960 (-) 1960 Population (-)
7. Percent of housing in town classified "standard", percent change, 1950-1960	Percent change in manufacturing employment, 1950-1960 (+) Median Family Income, 1960 (+)
8. Per capita expenditure on schools in county containing the town, 1962	Percent change in manufacturing employment, 1950-1960 (+) 1960 Population (+) Per Capita Debt, 1962 (-)
9. Debt per capita, 1962	Inconclusive
10. Median family income per capita, 1960	Inconclusive
11. Intergovernmental revenue	Inconclusive
12. Percent population change, 1960-1965, estimate	Median family income (+) 1960 Population (-) Per capita intergovernmental revenue, 1962 (-)

The fact that the manufacturing variables were not significant in many cases, and particularly in the case of public works spending, is attributed to time lags. Where manufacturing was significant--most strikingly in education spending, and housing improvement–it would be expected that the effect is felt through the infusion of *income* into the private sector, and thence into *private* housing improvements, and into school district tax collection subsequently spent on schools. Although a significant indication of the impact of industry, this type of effect is quite different from the type hypothesized: a demand, or *burden* placed on town or county spending by industry. Intergovernmental revenue proves to be another significant income type of determinant, showing the city's dependence on outside assistance.

The conclusions drawn from this experiment are:

1. Data was inadequate because of small sample, city size (too large), wrong time lags, and inconsistent census reporting procedures.
2. Despite these probelms, there are numerous indications that industry has had a significant income effect on spending in various categories.
3. An important determinant of local spending, as previous studies showed, is intergovernmental revenue.
4. Further experiments should be conducted using Federal and state aid, city size, an income variable, and a manufacturing variable.[1]

[1] A number of analyses of the determinants of state and local expenditures have been conducted. Glenn W. Fisher has expanded on Solomon Fabricant's 1952 work, and has used economic, demographic, and socio-political variables in an attempt to explain inter-state variations. These variables are: per cent of families with less than $2000 income 1959; yield of representative tax system, 1960 as per cent of U.S. average; population per square mile, 1960; per cent of population in urban places, 1960; per cent increase in population, 1950-1960; index of two party competition; per cent of population over 25 with less than 5 year schooling, 1960. The income, population density, and urbanization variables are similar to those used by Fabricant. The income variable was extremely significant in explaining levels of expenditure, both total and in particular categories, with demographic variables adding to the results in some cases. Fisher, Glenn W., Interstate Variation in State and Local Government Expenditure, NATIONAL TAX JOURNAL, Vol. XVII, No. 1, March, 1964. Fabricant, Solomon, THE TREND OF GOVERNMENT ACTIVITY IN THE UNITED STATES SINCE 1900. New York; National Bureau of Economic Research, 1952.

Seymour Sacks and Robert Harris conducted the same type of experiment, adding federal aid to states and state aid to localities to the three basic variables (density, urbanization, and income). The addition of the federal aid variable increased the amount of explained variation in total per capita expenditures from .532 to .813, and dramatically improved the results in the highway and welfare categories. For schools and hospitals, state aid increased the amount of explained variation. Both aid variables had higher beta weights than population density or per cent urban population in the total expenditure equation. Per capita income remained the most important determinant after the aid variables were introduced. Sacks, Seymour, and Harris, Robert, The Determinants of State and Local Government Expenditures and Inter-governmental Flows of Funds, NATIONAL TAX JOURNAL, Vol. XVII, No. 1, p. 75-84, March, 1964.

James Henderson, in a recent paper, has moved beyond the methods used in the papers just discussed. Henderson specifies a community collective welfare function and budget constraint, the former containing per capita personal income, per capita revenue received from federal and state governments, population, and public and private expenditure levels. Welfare is then maximized, subject to the budget constraint. This formulation is then tested using regression analysis and county data for metropolitan and non-metropolitan areas, analyzing local expenditure and tax decisions. Results were significant, and the following findings were obtained.

1. Non-metropolitan counties are more responsive to per capita income.
2. Non-metropolitan counties have a relative marginal income preference for public over private expenditures, and vice versa for metropolitan counties.
3. Metropolitan counties are more responsive to intergovernmental revenue.
4. Non-metropolitan counties' per capita local expenditures decrease with population increments, and metropolitan counties increase with population.

Henderson, James M., Local Government Expenditures: A Social Welfare Analysis, REVIEW OF ECONOMICS AND STATISTICS, Vol. L, No. 2, May, 1968.

None of these studies considered the impact of industry, which is the basic goal of this analysis; neither urbanization nor population density is a reliable proxy for industrialization, since very large cities become decreasingly reliant on industry for employment. The applicability of the studies to ours is further limited by the fact that they do not examine city or town behavior but are concerned with local, county, and state expenditure, aggregated by state. They are useful however, in creating hypotheses as to which determinates used on this aggregate basis may be meaningful on the level of the city.

Despite the failure of this experiment to show a significant causal relationship between manufacturing growth and public works spending, the towns studied did show such a relationship existing, connecting manufacturing growth between 1950 and 1960 and later public works spending.

Percent of Total Employment in Manufacturing and Trade Categories[1]

		Manufacturing	Trade
S.C. Town :	1950	28.2	14.7
	1960	41.1	19.7
	change	12.9	5.0
S.C. City :	1950	10.8	13.3
	1960	26.5	21.8
	change	15.7	8.5
Miss. Town :	1950	4.0	26.4
	1960	13.2	28.9
	change	9.2	2.5
Miss. City :	1950	15.9	26.5
	1960	19.3	22.7
	change	3.4	3.8

The biggest manufacturing surge took place in South Carolina during that decade; yet Miss. Town started from the smallest manufacturing base, and would therefore be expected to have been under significant pressure, also.

The response of water and sewer spending was as expected. S.C. Town underwent a major water supply expansion in 1966-'67 (this town's industrial surge gained in momentum in 1962). S.C. City and Miss. Town show substantial increases in per capita water spending in 1962. The fact that *per capita* spending on water increased is notable; since returns to scale are supposed to be substantial in water supply[2] per capita increase is more significant than if only an increase in total expenditure on water had occurred, which could have been brought about by population growth.

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[4] Continued from previous page.
The variables examined in the studies fall into five basic classifications: need (economic and educational); resources; demographic (size, population growth rate, urbanization); financial assistance; and political party.

The last factor appeared not to be significant.

Financial assistance from the Federal government was shown to be particularly important by Sacks and Harris.

Demographic variables did not add significantly to results in most cases, but these studies were not done on the metropolitan level. It is quite possible that city size has a significant bearing on expenditure levels, particularly where returns to scale are present. It is further possible that the smaller towns being investigated in this study have unique public service attributes, exclusive of the matter of scale. Urbanization and density do not become important in towns of this size, however.

The need and resource variables were important both in the Fisher study, and in our study.

[1] Source: CENSUS OF POPULATION, 1950 and 1960, MISSISSIPPI AND SOUTH CAROLINA GENERAL SOCIAL AND ECONOMIC CHARACTERISTICS, U.S. Dept. of Commerce.

[2] See the writings of Hirsch, Werner Z., and: Isard, Walter and Coughlin, Robert, MUNICIPAL COSTS AND REVENUES RESULTING FROM COMMUNITY GROWTH, op. cit.

The availability of E.D.A. grants and loans for this expansion must be assumed to be influential for industrial expansion decisions. It is notable, however, that several large water-users had located in S.C. Town reportedly without realizing that water utilization was close to capacity. The expansion project in this case was of a crisis management nature, rather than orderly planning as a location incentive. Subsequently, a second rapid increase in industrialization occurred, with the new water plant "sold" as an incentive.

A major industrial influence in this public works category which is likely to have a much greater effect in the near future than has been felt to date is water pollution, which was reported to be a significant problem in *all* towns studied. Authorities at the South Carolina Pollution Control Board described the water pollution in S.C. City as "severe" and that in S.C. Town slightly less so (due to a faster flowing river) but still significant. Federal water policy will require large expenditures on pollution abatement by 1970 in the three of the four towns studied which are located on rivers. This topic was not a major item of concern in the small S.C. town, but was worried about increasingly according to the size of the city. Industrial development sources interviewed did not show a great concern for this problem.

Non-Public-Works Efforts

In addition to biasing per capita expenditure towards water and sewer expenditure, industry did seem to have other influences on the provision of services. First, the foregoing cross-sectional analysis showed *total* expenditure per capita by towns to be correllated with both manufacturing growth and intergovernmental revenue. This indicates an over-all increase in welfare for a town industrializing, although it is unclear whether the biggest effect is felt from the demand (burden) or supply (income) side of the service market. The cross-sectional analysis also showed housing improvement correllated with growth in manufacturing employment. This was supported by the field studies, in that sizable sub-divisions containing houses in a $12,000 to $25,000 price range had been recently built close to manufacturing firms. The results of this equation may be slightly misleading, in that what the dependent variable represents is the proportion of the non-dilapitated to dilapitated housing. Therefore affluence in one segment of the population will produce an improvement in the ratio, despite lack of progress on the part of a fixed and even slightly growing minority. It would nevertheless be expected, however, that this positive trend might be accompanied by a declining unemployment rate, since a larger proportion of citizens have the income to live in adequate housing.

Education spending is shown to be correllated with manufacturing growth and also with population size, which would indicate both a positive tax effect in all towns, and a handicap suffered by smaller towns. The latter may be a cultural phenomenon, in that the residents of larger cities might be expected to place a higher priority on education. It should be noted that school taxes are collected by a school district, and that this is the one property tax from which industry is never exempted.

Needs Unmet by Public Services

The two previous discussions have shown how a local government and industrial firms act to influence the public service mix received by a town's population. The problems discussed in Section II, regarding a segment of the population which has had difficulty integrating into the new economic life of a town, are often largely unmet by a town's public services. The major problem cited in Section II was that of making marginal groups employable. Reasons for their unemployability ranged from lack of education opportunity through poor housing, health, and acculturation, to lack of transportation (accessibility to jobs) and to management practices and to the information system used in the labor market. Some of the public service aspects of this problem are briefly discussed here.

1. *Education* improves in industrializing areas, as seen above. This development, however, has not been sufficient regarding skill acquisition and employment motivation on the part of many blacks, young and old. Therefore, supplemental training is needed. This is seldom a local service function, and the lowest level of government providing it is usually the state. Present state systems tend not to be completely relevant to the real problem population, because of local resistance to programs needed to *prepare* for training those most unskilled. This is not to say that state vocational and technical schools are not effective industrial location incentives.

2. *Housing* remains poor for sizable population segments in even the most prosperous small towns. Little local or state money is devoted to this problem, because it is not an accepted local or state governmental function.

3. *Health care* improves with industrialization, but stays far behind the level of service required to provide equitable treatment to an entire city population. Outside the towns, the level of service declines rapidly.

4. *Transportation* is not available to many poor rural residents. It is therefore difficult to move from a rural residence to a job in or near town, or to public service or welfare distribution points. In Mississippi Town, it was found that rural residents were paying up to $5 for a round trip to the closest food stamp center.

5. *Recreation facilities* are found in very short supply, particularly for a black population who are excluded from privately provided facilities.

FEDERAL ASSISTANCE

Given the problems described, in addition to instituting the reforms suggested, local government can apply for federal aid. There have been impediments to small towns doing this, however. Even in the relatively successful small towns studied, the following problems were noted. Of the major programs of direct federal aid to small towns – OE Education grants, EDA public works assistance, OEO "poverty" programs, Department of Labor training programs (MDTA, CEP) and HUD urban planning and public housing programs – several are less easily instituted in a small southern town, and certain patterns seem to be common, regarding the sequence in which various programs are obtained. Aid to education is generally more welcomed in South Carolina than in Mississippi it seemed, although there have initially been problems with certification due to alleged failure to meet desegregation standards.

The other four programs perform in an interesting fashion in the towns surveyed. The EDA programs, requiring extensive applications and usually long waiting periods for processing, are nevertheless eagerly sought, usually after a strain has been placed on an existing water and sewer system by industry. There is usually, then, a crisis atmosphere surrounding the public works program, and it is viewed as one which will enhance further industrialization. It is significant to note that there is little local opposition to EDA assistance because the program does not aim at "social change." OEO programs, on the other hand, focus on disadvantaged groups, and call attention to social problems, and towns are wary. (Headstart, of all OEO programs, may be the least threatening.) A community action program (CAP) does tend to attract attention locally, and sometimes is subject to local resistance. It is subject to resistance for the same reason it is extremely relevant to the problems in the area – it focuses on the distributional aspects of assistance and encourages community involvement. It was not found common for local government officials to be involved in CAP programs; it was found, however, that prominent citizens outside government were often in advisory roles. The success of these programs seemed to be dependent on strong leadership, particularly since the director had to manage the programs for a period in which some community elements (like the newspaper) could rather slowly move from a defensive and critical, through a neutral, to a moderately favoring position.

Labor training programs such as MDTA did not seem to occupy the time or concern of local officials, although they were viewed with less hostility than were the OEO programs. Most of the officials were willing to apply for HUD urban planning assistance, but only because certain dire needs had been recognized: housing deterioration, congestion. Officials did not like the "total planning" aspects of HUD programs, because they seemed to suggest that authorities outside the community would have a voice in dictating where townspeople would live.

Several general trends were noted:

1. Local officials generally wanted more federal assistance and saw themselves in roles of convincing city councils, other leaders, and voters that more should be applied for.
2. First programs lead to others. The receipt of aid was viewed as "success", and one success led to another. It also seemed at least possible that the less controversial programs (EDA) made locals more willing to ask for others (HUD).

Delivery of Public Services and Assistance

The preceding discussions have dealt with why public services are important, how successful local government has been in providing them, and what effect industrialization has had on service provision. We have not yet discussed a most important element of service provision, which is the institutional form of service delivery. Federal agencies have become increasingly concerned about the effectiveness of methods by which their assistance is delivered to the "clients" for whom they are intended. A penetrating examination is now underway in the federal government within which the newer and experimental "comprehensive" delivery systems such as Community Action Programs, Concentrated Employment Programs, and Neighborhood Service Center Programs are being evaluated by comparison to the performance records of older "categorical" programs limited to single assistance-types within a federal department.

This evaluation is relevant to the analysis at hand because our investigations in small towns have shown serious problems in service delivery. "Categorical" programs from major federal departments have traditionally dealt with the population through the city and through state institutions. State welfare departments, education departments, and local school boards receive funds from the Department of Health, Education, and Welfare; vocational education departments and state employment security commissions receive funds from the Department of Labor; the city government and business establishments receive assistance from EDA; even newer programs, such as HUD's model city program, are associated closely with the mayor's office. The existence of these local administrative units raise several questions, from the federal government's standpoint:

1. Do services get delivered to the population intended by the federal government?
2. Viewed in the aggregate, is this delivery system for federal programs the most cost-effective means possible?

The answer to the first question is obsured by a reluctance on the part of some federal programs to *specify* a target population: let us assume that this is the *poor*, defined in some operational sense. Next, there is a serious lack of data normally gathered which would enable an evaluation of how services are provided to this target population. For instance, employment security commissions record the *percentage of referrals placed* as a performance criterion. This statistic tells nothing about what employment counselling services are provided to what type of people. Funds can therefore be allocated to a state E S without having a great deal of evaluating and monitoring capacity; federal goal attainment regarding a target population is almost impossible to evaluate.

Once these goal specification and data problems are recognized, there remain at least two major reasons why federal goals may not be met through a categorical program's use of local institutions as delivery systems. First, local beliefs and cultural patterns will obviously affect the performance of the local delivery unit. The use of federal assistance to education funds is the best-known instance of how local segregation patterns can impede the delivery of assistance to an intended recipient. It is increasingly argued that representation on a governing board by members of the target population will help to assure that local biases will not impede service delivery. Since in the South it might be difficult to achieve this with established institutions, the solution used by "comprehensive" organizations like the CAP's is to work *outside* established institutions, as far as a governing board is concerned.

Second, to the extent to which segments of the population have multiple problems, *all* of them must often be treated to have any real effect. For instance, if an individual has a serious health problem and also lacks skills relevant to jobs available, the treatment of either problem alone will not result in the employment of the individual. The impact of federal assistance on the employment of the individual depends, then, on how two local agencies coordinate and function-the county health office, and, say, the state vocational education school receiving federal assistance under the MDTA. If benefits are to be received from the involvement of *either* agency, the client must be treated by both. It is apparent that the more problems a multi-problem client possesses, the less likely it is that all agencies will find the individual. A "one-stop" service center is the answer recently proposed to this problem.

In answering question No. 2, all the concerns discussed above become important, as do several new considerations. First, a benefit-cost evaluation should itemize benefit and cost elements as follows:

Benefits:

1. Number of target population receiving service.
2. Number of multi-problem clients receiving services on *all* problems. Combining these into one benefit calculation:

1. Number of target population receiving service, where multi-problem clients must receive *all* services.

To make this benefit definition operational, one must further define two terms:
Target population: options here can include: anyone who walks in the door; registered unemployed; unemployed and underemployed; black hard-core unemployed; etc. The further the agency reaches toward the hard-core unemployed population, the more ambitious the agency becomes, and the more it risks not attaining the volume of benefits hoped for.
Receiving service: Does a client receive a service from the employment security commission at the point where he is recorded as unemployed, when he is tested and counselled, or when he is placed in a job?
It seems reasonable, given the magnitude of and federal concern for the more extreme poverty problems in this country, to adopt the more ambitious, higher risk goal of a hard-core unemployed (predominantly black) target population. Regarding skill training, *employment* would seem the appropriate mark of service delivery. Considering the difficulty of obtaining data on other services, some would suggest the acceptance of employment alone as proof that the other problems had been taken care of. This is not sufficient, however, since: Even if good data were available on how long a client stays on the job (a more relevant criterion) it will not be clear what job and wage upgrading will be possible, whether problems at home will prevent his family from breaking out of the cycle, and so on; the major problem is the time delay between service delivery and evidence of success. (There has been enough time to see the results from the older categorical programs, and the evidence in Section II would indicate that assistance provided to southern blacks under that system did not succeed in employing them.) Remembering the assumption that multi-problem clients must receive services relevant to all afflictions, then, we must record the attainment of this sub-goal by measuring the client's "performance" in certain categories against some standard: illnesses *cured*, skills *learned* (tested), children *enrolled* (in day-care or headstart, etc.)

Costs

Turning to the cost side, there are several important elements:

1. Cost of establishing and operating a service outlet at some minimum level. (fixed cost-administrative)
2. Cost of providing service to a client (average variable cost).

As an example, under a categorical system, costs would appear as follows (only costs to the federal government are considered, to be conservative; it is assumed that local institutions, if funded partially by state and partially by federal funding, perform state-specific functions as well as those in which the federal government takes an interest.) Only two services are used in the example found on the next page.

The benefit/cost ratio is calculated as follows:

Benefits: E (employment of black)
h (health service provided to black)
Eh (employment and health service for *same* individual requiring both)

Costs: a (fixed cost-skill training)
α (variable cost-skill training)
b (fixed cost-health service)
β (variable cost-health service)

$$\frac{B}{C} = \frac{E + h + Eh}{a + \alpha + b + \beta}$$

Note several properties of this function:

1. Fixed and variable costs for each service may increase, but if employment does not result, the benefit numerator does not increase, except to the extent that health service is provided. (This property depends solely on the employment criterion, and this variable is the only actual service performance variable in the function.) Since E and Eh do not increase unless a client is employed, this makes the size of the B/C ratio particularly dependent upon the provision of both services to the population segment requiring them both, and upon the quality of the skill-training program.
2. The probability of Eh being fulfilled will decline as the number of problems for any individual increases, by logic. The probability, $P(E) > P(Eh)$; similarly, $P(Eh) > P(Ehx) > P(Ehxy)$, etc. Furthermore, it can be observed that the more disadvantaged the target population, the more multiple-problem clients will be encountered.
3. The more disadvantaged the target population, the higher will likely be the marginal and average variable cost per enrollee, due to the additional time required within one service category alone to treat a client.
4. Based on 1, 2, and 3, the more disadvantaged the population, the larger will be that portion of the target population requiring Eh, higher will be α and β, and therefore the lower the B/C ratio.

"Comprehensive" programs have brought several new dimensions to this problem. They provide a referral service, so that all of the client's problems are recorded, and remedies prescribed. The comprehensive program does not try to treat all problems identified, but rather "refers" clients to other, existing agencies, for many problems. Sometimes, it brings not only such a coordinating mechanism but also additional funds for achieving a particular goal; for instance, a CEP might be given $2 million to place 1000 hard-core unemployed in jobs within 15 months.

Ignoring such goals imposed on the newer coordinative programs, it is important to be able to justify the "linkage" between categorical programs which such a new institution provides. First, it seems obvious from the above example that, by raising the probability of Eh, with α and β rising irrespective of E and Eh, the link can help produce a higher benefit/cost ratio from a federal assistance program. Critics of the "linkage", however, claim that the new institution is "excess baggage", implying a higher administrative cost. This added cost adds another term to the benefit/cost calculation:

$$\frac{E + h + Eh}{a + \alpha + b + \beta + e + \epsilon}$$

where e = additional fixed administrative cost and ϵ = additional variable adminstrative cost. In evaluating categorical vs. comprehensive programs, therefore, the comparison is:

$$\frac{E + h + Eh}{a + \alpha + b + \beta} \quad \text{vs.} \quad \frac{E + h + Eh}{a + \alpha + b + \beta + e + \epsilon}$$

The comparison stated in this way will depend upon how the added costs, e + ϵ, compare to the higher probability of E, h, and particularly Eh occurring.

Now, a new dimension will be added. Assume that the actual unemployment rate (official plus uncounted and non-registered) is 10%. Also assume a minimum acceptable federal goal is to lower this to 5%. The comparison between the categorical and the comprehensive alternatives no longer takes the form of comparing B/C ratios. A fixed benefit level is required, and the goal now is to minimize cost. This is a significantly different problem, given the characteristics of the poverty situation. Advocates of comprehensive systems will argue intuitively that categorical programs supplied through established state and local agencies have *not* in the past attained the goal (see Section II.) Furthermore, there may be a local political constraint to achieving the goal through these agencies; this constraint may be removable by money and time, but the urgency of the problem would suggest other solutions in the meantime.

If the multi-problem consideration is taken seriously, the fact remains that comprehensive programs are the only existing means for recording and tracing the problems of a single client. In other words, if an evaluation even remotely resembling the one above is to be done, the *only* way it can be performed is by utilizing the data collected from linkage programs. The act of collecting data on individual clients from the county health office, the state health office, the local school board, the state employment security commission, etc., and assembling client profiles would itself represent the formation of a coordinating agency. Three critical roles are performed by the comprehensive programs: they collect and analyze information, make referrals, and involve local participation. It should be pointed out that the CAP'S, the CEP's, and the NSP's have been experimental while they have been costly. They have performed operational functions as well as the three above. A conceivable outgrowth of these experiments might be a single linkage-type program acting as a separate intake for clients, and referring them to the other agencies for services, without having any "operating' functions.

Another way of cutting costs would be to reduce administrative superstructure at the federal level. Often, because linkage institutions are created in target neighborhoods, coordinating institutions are created at higher levels (state, regional, national) to monitor the lower level comprehensive units. This phenomenon is also criticized as being an excess, e.g. unnecessary, cost. (Under the extreme alternative system which would give all federal funds to states, there would presumably have to be a sizable linkage institution at the state level; note however, that the only justification for a linkage given thus far in this discussion has been at the local level, where clients are analyzed.)

Community Participation

The discussion to date has purposely not dealt with one of the most-emphasized characteristics of the newer programs: the involvement of the target population. Blacks in small southern towns have not played major decision-making roles within local school boards and local employment services. It has been argued that if any assistance program is going to have the desired remedial effect on the black population, the formulation of it must be influenced by blacks. Using this success criterion, the categorical programs as administered in the past fail by definition.

EDA and Service Delivery

The implications of this discussion for EDA are major. EDA has had far less contact with the real client population - the poor - than any of the other agencies mentioned above. This is inherent in the nature of the EDA assistance, which is provided to designated rural areas and firms. The areas receiving assistance are designated on grounds of low income and high unemployment; but there is no mechanism by which the poor as a group benefit immediately and directly from grants and loans to district and area bodies. The success of EDA programs, however, is dependent on the same multi-problem considerations described above, and on the ways in which local agencies function. It is therefore almost impossible for EDA district staffs to predict the employment impact on a disadvantaged population without considering the effectiveness of other service provision units.

Aside from EDA's dependency on other programs, EDA plays a critical role in the success of the others. If employment opportunities are not present, the poor cannot ever hope to maintain themselves. Through coordination with other service units, therefore, and particularly with comprehensive programs, EDA can best allocate its resources. The policy implications of this service provision and coordination problem are covered in Section VI.

SUMMARY - PUBLIC SERVICES AND ASSISTANCE

Sections I and II, in discussing the patterns of growth experienced by small towns, noted the tendency of new industry to attract residents of a surrounding county hinterland. Some of these relocate within the city limits, and others remain on farms from which they commute. As the town grows, there develops a sizable Negro section in which reside many of the underemployed and unemployed in the area. Public services, which are strained by industrial expansion, are also required by the poorer sections of town. Services required range from conventional water and sewer facilities to employment-facilitating services such as training, orientation, and day-care; housing is almost always poor.

This in-town blight appears quite unexpectedly to the local official, although its growth has been gradual. The wholesale "opening" of the town to new people (accompanying the new employers) raises town awareness of the problem. However, the local official does not make decisions within a political structure where he needs to be particularly responsive to these problems. Furthermore, local revenue intake makes it very difficult for the town to significantly expand services particularly to areas which cannot pay taxes. Local financial procedures further handicap service provision by sacrificing revenue in various ways. Much of the sacrifice is due to industry's demands for tax holidays and free services. In addition, industry puts a strain on many town facilities which may often be out of proportion to the revenue the town's *public* coffers are able to collect.(There is no question that the *private* sector, including individual employees, benefits significantly from industry).

Facing this resource problem, and a rapidly increasing need for services, the town requests federal assistance. This assistance has been customarily channelled through local agencies, however, which may not completely share federal goals. Unless agreement is reached on exactly who the target population should be, and "information linkage"units developed which can record and evaluate both needs and program impact, it is unlikely that federal assistance funds will accomplish their objectives, at least at an acceptable cost.

SECTION IV

THE SUBSIDIZATION OF GROWTH CENTERS

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IV. INTRODUCTION

The subsidization of growth centers is discussed in its two basic elements: incentives to industrial location, and assistance given for social programs. The point of view taken here is that all forms of assistance provided a town, from both state and federal sources, should be coordinated to achieve some agreed-upon goal. The goal assumed here is the growth center goal-set dealt with throughout this study: provision of a service and employment base for an increasing number of people, with an emphasis on providing for residents in slow growth and low opportunity sections of the town's hinterland. Therefore, the tax holiday provided by the state, the new water supply system, and the public housing project are all used to obtain the same end. (The political problems involved are purposely ignored in this section, in order to develop an argument, but are acknowledged in the last section of the report.)

Local, County, and State Subsidization of Industrial Location

The Market for Industry

First, it is important to realize what the viewpoint of the small town is on industrialization. The town marshalls state and federal resources to achieve a goal, and the process within which town and firm bargain is seldom understood.

Just as firms in one labor market vie for the services of that area's labor forces, towns compete with one another for new industry. In rural areas, firms rarely purchase an industrial site without first making contact with the local community and there is scarcely a town which does not have an active industrial development committee or commision to welcome prospective industrialists. These committees not only serve the important public relations function of "selling" the town to the interested parties, but they are often empowered to offer special inducements in the form of tax rebates, low cost land and building or special public services. Many of these inducements are granted as a matter of course under existing state legislation, but many others are discretionary on the town's part.

Firms that are considering relocation or establishing a branch plant generally survey a number of different sites and weigh each site according to a number of criteria, and a not insignificant weight is placed on the type of explicit offer made by each community.

It seems unusual to treat this seemingly natural act of site selection as the culmination of a market process but it is entirely appropriate. Towns act to maximize their utility by attracting new income-earning opportunities through special inducements. Profit maximizing firms supply the *income earning* opportunities to the most attractive community. Clearly the level of inducement can only be one element in the firm's decision calculus, but as the differences between alternative sites narrow,, the level of discretionary incentives weighs increasingly heavy.

The most notable characteristic of this market is its lack of conformity to the standard competitive market of neo-classical economics. Neither the package of inducements nor the quantity of new industry have perfectly divisible units of measurement. Moreover, the item that is "purchased", so to speak, by the community is a public good in the classical sense.

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Once a new industry opens its doors, job opportunities are open to all residents (and even non-residents) and not simply to the taxpayers who in effect paid for the inducements.

Just as firms vie for the services of labor, towns vigorously compete for new industry. Firms seeking to relocate or establish branch plants choose between a number of implicit "offers", selecting that "offer" which best serves the interests of the firm. The market for industry is similar to the market for labor in one other important respect – it, too, does not always meet the requirements of the perfectly competitive model.

The limitations of treating new industry as a commodity are obvious but the usefulness of treating subsidies as one part of a town's package offer and asking how prices are determined from city to city is obvious. It is not the purpose of this study to provide a model from which one could draw normative conclusions – i.e., that a given town's price is "too high". Instead, we simply outline a model that will illuminate the behavioral properties of this market system. In particular, our discussion will concentrate on the properties of the market which tend to vary according to the size of the town.

The Benefits to the Town

Towns essentially bid for a stream of income which will be earned by the local, immobile factors of production – typically, labor and land – once they are employed either by the new industry or by the existing employers who are enjoying the fruits of the multiplier effect. It is clear that such a benefit to the town can be strictly pecuniary and not necessarily a social benefit to the nation. To the extent that jobs also bring greater social and political stability – whether by keeping people's time occupied, giving people a sense of pride and identity, maintaining their contact with reality, or simply making them acceptable to the rest of society – industry may bring social gains to a town in addition to the streams of income generated. If one town's gain is simply another's loss, the nation as a whole is no better off with the relocation. The absence of any social benefit, however, does not prevent towns from competing for the new industry.

If land were the only immobile factor, the benefits from new industry would be measured by the increased land rents accruing from the new demand for industrial and residential sites. Land is not, however, the only immobile factor.

The benefits to a town of additional industry are:

1. Increased land rents accruing from the new demand for industrial and residential sites.
2. Increased real earnings of the labor force, both directly through payments by the new industry and indirectly through the multiplier effects of those payments.
3. Increased earnings from hitherto unused existing capital, such as unoccupied buildings.
4. Psychological/social/political benefits derived from finding work (and thus pride).

These gains are gains to the town, but not to the national society except for the extent to which capital and labor are immobile and *initially unemployed* in one area but not in another. Even within the town, it is the immobility of economic factors which theoretically should be mobile which gives rise to benefit. Labor, and especially rural labor, has been reluctant to exploit opportunities in labor-deficit areas when such areas are far from home.

Lack of information about job opportunities is no doubt partially responsible, but rational considerations such as small equity holdings which cannot be easily released and a preference for the rural way of life are also important factors. Thus, the wages of formerly unemployed and underemployed workers who find employment as a result of new industry are included in the stream of benefits accruing to the town. Capital is generally considered a perfectly mobile factor, which implies that the town residents will not reap any surplus profits from an investment in local industry as compared with an investment in industry in any other town. If a town owns an unoccupied building, the rent which accrues jointly to the land and the building would be considered a benefit from the point of view of the town.

The Distribution of Benefits

New industry does not only bring a particular level of pecuniary benefits to a town but also a specific pattern in the distribution of those benefits. A highly capital intensive industry may have high rents for land and only modest employment for unskilled labor (especially after construction is completed) while a labor intensive firm could bring just the reverse. It is possible that the total level of benefits is the same for both industries but the two sets of beneficiaries are clearly separated and this fact has considerable impact on how the local political process is apt to evaluate the "total benefits" – i.e., level and distribution – among various industries.

Benefits – Private or Public Good

One of the interesting features of the industry market is that the commodity that the town purchases has few of the properties of a privately traded good. First, the town cannot wholly internalize the benefits of new industry. The new firm might hire labor living outside the city limits or even outside the county area; the land where value increases may be owned by non-residents; second, resident employees of the industry may spend their wages outside the area. The town cannot legally exclude anyone from enjoying the benefits associated with new industry. Local governments are even restrained from taxing the beneficiaries *in proportion* to the benefits received. Since the benefits of the good are clearly finite, new industry does not meet the requirements of the classic public good. But it still lacks the essential properties of a private good.

This "publicness" of benefits and the fact that new industry is generally offered in fairly large increments make the town government the logical provider of new industry since of all the possible local groupings of beneficiaries, it comes closest to being able to internalize all the benefits through its limited process of taxation. A small group of unemployed and unskilled workers cannot easily import new employment into the community. A large group of unemployed unskilled labor is more likely to succeed but as we shall show, has little effective political power to do so.

A fact seldom considered by the town receiving the income benefits of industry is that "negative benefits" accompany the positive. The most striking social cost to the town imposed by industry is water pollution, which in most of the towns studied has reached serious proportions. The concern for this problem shown by town governments is after the fact. Since industry is primarily responsible, the weak position taken by local government suggests that the absence of water pollution control is one form of industrial incentive.

The Components of the Package which Towns offer to Industry

The town bidding for industry, a scarce good, offers a "package" of benefits to the firm. Some of these benefit components may represent costs to the town, while others may not. Towns differ in both ability and willingness to offer industry this package. The package in all towns can be viewed as containing essentially the same four components, although the quality and value of each component varies widely between towns.

Factors Exogenous to the Town's Control

An important part of what a town is able to offer industry is beyond the town's control. Its location, climate, and natural resources are endowments which may be vitally desirable to industry. Industry, faced with a decision between locating in a town offering a cash subsidy and locating in a town endowed with attractive natural resources but offering no subsidy might choose in favor of the latter if the endowments far exceeded the subsidy in value. In a very real sense, natural factors are treated in a competitive situation by industry as a part of the supply price. The town incurs not pecuniary but merely opportunity costs. The value of the offer is measured by the benefits brought by the best industry which the town could secure by expending part of its natural endowments, and wherever these natural factors retain the character of a public good – e.g. climate or proximity to a Metropolitan area – the town need not even ration those resources among prospective industries.

State and other public programs which may be applied to the town and which will benefit industry (state training grant, state industrial bond law) may be viewed as exogenous inputs to the package. Naturally, if the application of these programs require inputs of local officials' time, the cost of their time must be included in a later category.

Factors Under the Town's Control But Not Strictly Monetary

The town is often requested by industry to provide infrastructural facilities: sewer and water lines, special roads, industrial land, and so on. These services must be regarded as a part of the town offer. It is common practice in the towns surveyed to extend water and sewer lines to a new industrial site at no cost to the firm. Infrastructure may have been constructed before the firm considers location; towns build industrial parks and construct high-capacity water supply plants with the intention of attracting industry.

The town is also able to make other non-financial offers to industry. It may agree to resist the entry of other firms which would employ the same type of labor, thus guaranteeing the first firm's control over the labor market. It may promise to actively oppose the coming of unions. These offers of a "favorable community attitude" to industry or to a particular firm are valued by industry as part of the town package, and are often cited by industry as reasons for locating.

Factors Endogenous to the Town But Usually Not Within the Town's Policy Control

Industry views the town's package as including a great number of "amenity" characteristics, the quantity and quality of which are usually a function of the town's size and range of commercial activity. Bowling alleys, churches, and shopping facilities may be attractive to industry, but cannot usually be constructed by an industry-hunting group. These elements of the package are simply *present*, and industry may or may not accept them as reason to locate.

In the same category are the size and skill characteristics of the available labor pool. This part of the package has been extremely important in the firm's location decision. Larger cities are able to offer a significantly larger and more diverse labor pool than the small town. The small town often has the advantage of offering a smaller supply of cheaper, non-union labor, which may not be highly trained, but which the firm feels more confident of being able to employ profitably, as one of very few employers. Our analysis stresses the importance of reforming the labor market information structure so that a labor force can be actively marketed.

Monetary Factors

Finally, the town is able to complete its offer with a range of monetary incentives to industry. The financial incentives offer the greatest flexibility since they are almost wholly discretionary and require little advance preparation. These incentives serve to lower the firm's costs; in fact, all factors in the package do, but monetary incentives are most direct and predictable in their cost-lowering implications. Towns offer property tax moratoriums lasting a number of years, cash, land or building subsidies, industrial bond financing of plant, and other legal and extra-legal incentives to locate.

Bargaining

Bargaining is carried on directly and secretly between a town (or its representative) and a firm. The town believes that it is competing with many other towns. It does not know what prices rival towns are offering. Nor does it know what other industries it might be able to bid for as alternatives. Firms, on the other hand, know the prices offered and also realize that the town lacks information on the demand side of the market. They are already in an oligopolistic position because of their product and the number of its sellers. The secrecy of the bargaining process and the information structure of that process strengthen the oligopolistic position of the firm. As a result firms receive prices which may be far higher than the price at the margin which would be sufficient to induce their locational shift. The fact that local and state governments are limited by law in the package deals and prices they supposedly can offer, does not restrain this oligopolistic pricing. Reports of under-the-counter deals between towns and their industries are sufficiently abundant to suggest that the price actually paid by towns is definitely higher than the legal limits would indicate.

SUBSIDIZATION AS A POLICY INSTRUMENT

Within the market structure described thus far, the incentive instruments are those aimed at industrial location. Although our interest lies ultimately in examining all incentives to *growth*, not restricted to industrial location, it is first instructive to evaluate the location incentives alone in order to place them in prospective. The following discussion accomplishes this.

One of the major policy instruments which influences industrialization of rural towns is subsidies to business firms. These instruments are widely used by state and local governments to induce industry to move to their areas and occasionally used to induce indigenous firms to expand in the same location.

We will first study the effects of various incentives and subsidy programs on both a theoretical and empirical level. After a description and classification of different schemes, the overall effectiveness of incentives and subsidies will be discussed. The initial question to be answered in this section is "Are firms attracted by these programs?" After this, the value of incentive and subsidy programs will be discussed. First, the costs and benefits to towns and states will be discussed. Then the costs and benefits to the nation will be examined. It will be shown that there are important conflicts between local and national views of these programs. The situation is similar to the case of external diseconomies.

The next section will discuss the best methods of subsidization of industry. Issues discussed will include who should administer incentives and subsidies - whether it should be done by the federal government, state governments, or local governments, whether subsidies should be related to capital or labor, and which types of subsidies lock firms in. This section does not treat subsidies as a whole, but rather compares various types as to their differential effects. Not only are some types more effective than others, but different types of subsidies attract different types of firms.

After this discussion, certain alternative ways of using government resources will be considered. Aiding expansion of firms in the same location, and the alternative of subsidizing labor migration will be briefly considered.

Description of Incentive and Subsidy Plans

A large number of methods to subsidize industry so as to influence its location have been used in the United States. Most have been administered by local and state governments, and by private development corporations associated with these governments. While the federal government has few programs which directly influence location, it pays the bill for many of the state and local programs through its tax-exemption on municipal bonds. As an introduction to the policies of subsidization, the various types of subsidies will be described here. Methods will be classified with regard to economic impact rather than legal characteristics, since the former is the key to policy recommendations.

One very commonly used type of subsidy is the property tax exemption. Localities typically grant new firms an exemption from property taxes of 5, 10, or 15 years. The average of all exemptions is 9 years. In many communities, where tax exemptions are prohibited by law, informal agreements are made with firms that taxes will be kept low through low assessments. Of course, both legal and illegal property tax exemptions (or rather reductions in the illegal case) have the same economic impact. They both have a predominant effect on a business firm's fixed costs. A tax on the value of a firm's land and buildings does not vary with output in the short run, and is thus considered a fixed cost. Property taxes on inventories do vary with output to some extent, but not proportionally. As output (and sales) grow, inventory becomes a smaller proportion of it. Thus the property tax on inventories is partly a fixed cost and partly a variable cost. In sum, we can say that the property tax exemption is a subsidy that primarily affects fixed costs.

A second category of tax concessions is an exemption from state corporation income taxes. As not all states have corporation income taxes at the present time, this incentive cannot always be offered. This differs significantly from the property tax exemption in impact as it does not affect the firm's fixed costs. This tax comes only out of profits. Thus only firms which expect to make profits regularly stand to benefit from this type of tax concession. Since profits vary with output (though not in a proportional manner), this incentive primarily affects variable costs.

Accelerated depreciation is a type of hybrid of the property tax exemption and the corporation income tax exemption. It is like the former in that its value is based on the amount of capital equipment. It is like the latter in that since accelerated depreciation essentially means a saving of profits that would otherwise be taxed away through income taxes, it is valuable only to a firm which is turning a profit. Some states have used this method selectively by allowing accelerated depreciation for only certain types of investment expenditures such as research and development.

Tax concessions is one broad category of subsidization. Provision of capital for firms at low cost is another broad category. There is a great variety of methods to provide capital at low cost to firms, though all are quite similar in their economic impact. Different methods include building of plants for leasing to firms, extending low cost loans to firms, and guaranteeing loans. All of these plans give two benefits to firms. First, there is an interest subsidy. Low cost loans are at rates lower than the firm could have obtained from conventional sources. Guarantees lower interest rates as they reduce the risk to the lender. Leasing a plant to a firm can be expressed in terms of an interest subsidy also. Rents charged the firm in these cases cover interest and principal of the mortgage. These rents are lower than if the firm owned the building, since the local government can borrow at a lower rate than then the firm due to the municipal bond tax exemption. Thus the subsidy from leasing a plant to a firm is equal to an interest rate differential between the firm's borrowing rate and the government's tax-exempt borrowing rate.

The second benefit of provision of capital is access to the capital market. Many small firms and rapidly growing medium size firms cannot obtain capital at any cost. Thus a loan or rental of a building can be very valuable to them. This benefit of provision of capital is very difficult to measure, since we do not know what rate of interest the firm would have been willing to pay for this capital. In most cases, however, we can say that this benefit of providing accessibility to the capital market is more valuable than the benefit represented by the interest subsidy.

Provision of plant and equipment is probably the most important form of provision of capital as far as dollar volume is concerned. A plant is built by the municipality, sometimes to a firm's specifications, and is leased to the firm at a rental which covers the principal interest of the mortgage. Interest payments are lower than commercial rates due to the tax-exemption privilege of municipal bonds. "Industrial Aid Financing" is the title usually given to this method of provision of subsidized capital. There are two major varieties of industrial aid financing - revenue bonds and general obligation bonds. The former type is guaranteed by the revenue generated from the plant and equipment. Thus, the credit rating of the prospective firm determines the interest rate of the bonds, and the town is not liable in case of default. Though the town acts only as an agent here, the bonds are still tax-exempt and thus carry a lower interest rate. General obligation bonds are guaranteed by the local governments.

The interest rate on this type of bond is determined by the credit rating of the government. As can be expected, revenue bonds have been used for large firms and general obligation bonds for small firms. Larger towns have an advantage in this type of subsidization since they can obtain a lower interest rate on general obligation bonds.

It is difficult to estimate the volume of this financing, but all agree that it has been growing rapidly. Goodbody & Co. (investment bankers) estimates that in 1964, $36.5 million in general obligation bonds and $14.2 million in revenue bonds were issued.[1] Discussions with investment bankers specializing in industrial development bonds produced an estimate of a $1 billion volume for 1967 and a forecast of $2 billion for 1968 if there is no crackdown by the Treasury.

Guarantee programs for mortgage loans are used in a number of states. Maine and Rhode Island have had the most experience with these programs. The purpose of guarantee programs is to provide access to capital markets for small firms. A charge of ¾% or 1% is rendered for the guarantee.

Direct state loans go to small firms and serve the same purpose as the guarantee programs - providing access to capital markets. The only difference is the use of public credit versus private credit with public guarantee.

Private industrial development corporations are another instrument to provide capital to smaller firms. The stock of these corporations is subscribed to by local citizens. Capital is then raised from commercial bonds at an interest rate of ½% above the prime rate. This money is loaned to small promising companies in the local area. There is little subsidy in this plan, because of the great economies coming from the pooling of risks. The only subsidy involved comes from free management time donated by local businessmen, and the lack of a requirement to pay a high return to the stockholders, who are interested local citizens. In practice, however, a high return has been earned by these corporations.

In summary, most schemes for provision of capital to firms at low cost are aimed at small firms with limited access to capital markets. However, the program aimed at larger firms - industrial revenue bonds - is by far the largest of these plans in terms of dollar volume.

There are a number of methods in addition to tax concessions and provision of capital that local governments have used to subsidize new industry. Free land is often given to a firm which builds a plant or which has a plant built for it by the local government. Also, public services are often rendered free or below cost. Roads are built to a new plant. Also water and sewer lines are often constructed to the plant or to the city line if the plant is outside the municipality. Inducements of this type are usually not hindered by legal restrictions.

Subsidies-in-kind are also rendered by local governments. Vocational training schools where training emphasizes skills required by the firms are an example of this type. Subsidies-in-kind like this avoid legal restrictions almost entirely.

The differences in impact of these various methods of subsidization has been hinted at only briefly here and will be discussed in detail in a later section. Knowledge of the range of subsidization programs enables us to proceed to the next stage of analysis - the effectiveness of incentive schemes in general.

[1] INDUSTRIAL AID FINANCING, New York: Goodbody and Co., 1965

Effectiveness

How effective the various types of inducement programs have been has been a subject of great controversy for a long time. It is an important subject, since it enters calculations of benefit-cost ratios of inducement programs for localities and for the nation. Studies of the effectiveness of inducements probably affect the volume of inducements given by states and localities. The volume of inducements also affects to some extent the profits of business firms considering relocation or opening up a new branch. Thus, there are vested interests in the controversy.

There have been numerous studies of the question, which we feel can be classified as to method. Probably the oldest method is a statistical comparison of relative growth rates of various states with differing relative tax burdens. For inducements to be shown to be effective, the states with the lowest tax burdens should be those with the highest growth rates.

In one of the more frequently cited studies, C.C. Bloom[1] took Iowa data and correlated the relations between growth in manufacturing employment and capital outlays of manufacturers with per capita state-local tax collections and growth in such tax collections. The periods used were 1939-53 and 1947-53. No significant correlations were found. The study has some very obvious shortcomings. First, taxes were not restricted to those on manufacturers. Second, there was no isolation of other factors influencing manufacturing growth. Third, and possibly most important, there is confusion as to cause and effect. High growth in manufacturing is a cause of higher per capita tax collections, both through taxes paid by manufacturers and through taxes paid by workers. Thus, in a situation where tax burdens were important, a state with a low tax burden could not be recognized due to its high tax collections resulting from growth. Thus, though Bloom's study implied that the impact of tax burden on industrial growth was minimal, we cannot accept these results as convincing since his research methodology was so poorly conceived.

W.R. Thompson and John M. Mattila[2] did a similar study which used more sophisticated econometric techniques. They considered only taxes paid by business firms. They concluded that there was no significant correlation of interstate tax differentials (measured in terms of the amount of tax paid per employee) with employment growth in 29 manufacturing industries. This study is superior to the Bloom study chiefly because of its use of a better tax burden variable. Taxes paid by business firms per employee is a more accurate measure of tax burden than total taxes per capita.

A major limitation of the general type of study represented by Bloom and Thompson-Matilla is that they involve all firms. Many firms have few significant locational choices among states. Their ties to resources and markets often limit locational choice to that between neighboring states, or just between localities within a state. Others have little locational choice due to their extensive investment in specialized fixed capital and equipment. It would be more desirable to study only those firms with significant locational flexibility. Then the incentive and subsidy influence could be more accurately identified.[3]

[1] Bloom, C.C., STATE AND LOCAL TAX DIFFERENTIALS, Iowa City: Bureau of Business Research, State University of Iowa, 1955.

[2] Thompson, Wilbur R., and Mattila, John M., AN ECONOMETRIC MODEL OF POSTWAR STATE INDUSTRIAL DEVELOPMENT, Detroit: Wayne State University Press, 1959.

[3] Due, John F., "Studies of State-Local Tax Influences on Location of Industry," NATIONAL TAX JOURNAL, Vol. 14, June, 1961, p.164

Another limitation of the approach is that it only considers taxes and does not consider inducements which provide capital. This was excusable during the 1950's when these studies were undertaken because at that time there were few programs which provided capital. In the 1960's, however, such an approach is inadequate.

The lack of focus on firms with the ability to relocate is not a problem in the second methodological approach to be discussed - interviews. The value of the interview approach is that it focuses on firms deciding on a location and can isolate particular factors important in location.

There have been a large number of questionnaire studies undertaken. Results have been quite uniform, though subtle differences in the questionnaire have produced predictable differences in response. For example, taxes are found to be more important in studies asking about them specifically, than in those asking about general locational influences. Another subtle difference occurs between studies asking what factors affected the firm's present choice of location and what factors does the firm generally consider in location. In the former, the importance of tax concessions (though not taxes) might be rated unduly low since a number of firms were not offered incentives.

It is instructive to review some of the specific questionnaire studies. An interesting one was made by Boblett.[1] Rather than asking firm managers questions about location, he asked realtors to rank industrial location factors. He found that there were four major factors: markets, labor, transportation, and raw materials, in that order. As secondary factors, he found in order of importance: suitable site, character of the community, adequacy of utilities, presence of supporting activities, local tax climate, planning and zoning, local government reputation, and suitable housing for labor and management. Boblett then listed tertiary factors in location. Special inducements were last in this category, and eighteenth in the survey. He concludes that special inducements were attractive only if other factors were not compromised.

Another survey which asked about location factors in general was that of *Business Week* in 1958.[2] The questionnaire asked business firms what factors had influenced location decisions. Only 5% referred to taxation as a factor influencing location decisions.

Alan Lechner[3] undertook a survey for Goodbody & Co. which concentrated on industrial aid financing. Companies questioned were those which had located in the South with the aid of industrial development financing. They were asked what was the major location factor in their move. Of the 26 firms questioned, 7 cited taking advantage of new markets as the major factor. Four explained that they were located there already, four found the available labor supply attractive, and three cited the opportunity to take over an existing plant. In fifth place was the aid package with 3 mentions. It is notable, however, that 20 of the 26 firms answered that they could not have expanded without this aid!

J. Strassma[4] performed a study which asked specifically about taxes. Of 196 manufacturing firms replying, 16% indicated that local taxes had influenced location decisions and 19% indicated that state taxes had done so.

[1] Boblett, R.P., "Factors in Industrial Location," THE APPRAISAL JOURNAL, October, 1967.

[2] "Plant Site Preferences of Industry and Factors of Selection," BUSINESS WEEK RESEARCH REPORT, 1958.

[3] Goodbody & Co., INDUSTRIAL AID FINANCING, New York, 1965. p. 49.

[4] Strassma, J.D., "State and Local Taxation of Industry," Boston: Federal Reserve Bank of Boston, 1959.

Though this point will be discussed in detail later on, we might be able to point out a preliminary conclusion here. All of the interview studies agree that taxes or other forms of industrial aid are not a major factor in the locational decisions of most firms. What must be studied is whether or not a small percentage are strongly influenced; then subsidies can be considered effective and we must find out how to identify the subset of influenceable firms.

In general, interviews are able to ask about tax questions in particular, and this is their great advantage. Their main difficulty is that much effort must be devoted to eliminating bias. For example, studies which ask specifically about taxes cause anti-tax businessmen to exaggerate their importance. Although high state and local taxes are unpleasant, they may not be high enough to influence the locational decision. Those studies which do not mention taxes seem to have no great bias in general.

Another critical weakness of most interview studies is that they fail to distinguish between the choice of an area of the country, and the choice of a specific site within the area. It is obvious that taxes and subsidies are more important in the latter stage of the decision process. Certain major variables such as labor, and proximity of markets enter mostly into the choice of an area. With these factors similar in most towns within an area, their importance diminishes. Taxes and incentives then become more important, as a town is chosen within the area. It is important that we distinguish between these two parts of the decision process. However, most interview studies do not.

One interview study which isolated the two stages was that by Greenhut and Colberg.[1] This intensive questionaire and interview study asked firms which had moved to Florida or had undergone a major expansion in Florida about why they had chosen Florida. Thus, this study in concentrating on the choice of an area by a firm. The results are what might be expected from the above studies and this analysis - that taxes play a smaller role here, than in the other studies. The firms were asked to cite the most influential factors in their industrial location decision. Of over 1,000 plants, not one listed state or municipal tax structure as the primary factor in location. 2.8% of the firms cited tax structure as a secondary reason for locating in Florida. Unfortunately, the study did not probe the process for choosing sites within Florida.

Another important method of gauging the effectiveness of tax incentive and subsidy programs is to see how interstate differences in tax costs affect total costs. This is a two-stage method. First, the importance of tax costs and value of inducements must be compared to total costs. Then, as tax costs are varied and inducements are given, it is seen whether the rankings of the states in terms of total cost for a particular industry change.

In a study of Wisconsin, Bridges[2] determined the value of inducements relative to total costs. Property taxes were found to range from 0.37% of total shipments in food products to 1.40% of shipments in the primary metals industries. The average was 0.68%. We can see a wide range in values of property tax incentives from industry to industry. Note that the industries most often found in rural areas have relatively low precentages. Also, property taxes tend to be lower in rural areas. This will be discussed in detail below. In general, the values of property tax exemptions seem to be small relative to total cost.

[1] Greenhut, Melvin L., and Colberg, Marshall R., FACTORS IN THE LOCATION OF FLORIDA INDUSTRY, Tallahassee: Florida State University, 1962.

[2] Bridges, Benjamin Jr., "State and Local Inducements for Industrialization," Part II. NATIONAL TAX JOURNAL, June, 1965, p. 175-192. He uses data from: Wonnacott, Ronald, MANUFACTURING COSTS AND COMPARATIVE ADVANTAGE OF U.S. REGIONS. Study Paper No. 9, Minneapolis: University of Minnesota, 1963.

Bridges makes a similar calculation for the value of low interest loans. The value of low interest loans is a function of the interest rate differential and the relation between capital assets and value of shipments. Bridges uses

$$\text{Value} = \text{Interest Rate Differential} \times \frac{\text{Depreciable Assets}}{\text{Value of Shipments}}$$

to determine value as a percentage of shipments, a figure comparable to the property tax figure. An interest rate differential of 1% averaged 0.30% of the value of shipments. The range was from 0.09% for apparel to 0.48% for primary metals. On industrial revenue bonds, the current interest rate differentials are approximately 1½%. This would be worth 0.45% of value of shipments on the average. On the other hand, the interest differential for small firms might be as high as 5% or even 10% giving a value of 1.5 or 3.0% of total cost for the average industry.

Measures of the value of subsidies as a percentage of total cost have a number of pitfalls when used to evaluate the effectiveness of subsidies. The danger lies in our grouping of firms into industries. If the industrial classifications are wide, there will be substantial variation of these percentages between firms in the category. This can lead to under-estimation of the power of incentives. For example, if the ratio for an industry is 0.5% with a range of 0.2% to 1.0% for various firms within the industry, and we assume that 0.5% is too low a ratio for sufficient impact, we may lose sight of the fact that the firms with 1.0% ratios may be influenced. A wide industrial classification conceals those firms which are influenced.

A serious problem also arises in measuring the value of low interest loans. For these loans, variance in value is not only by capital intensity, but by size of firm. The relevant interest rate differential from a particular loan is a function of the size of the firm. The interest differential is larger for small firms as they have poorer access to capital markets. Thus within an industry, we can expect different effectiveness ratios for different sizes of firms.

Many discussions of effectiveness say that though the value of inducements relative to total costs is small, they have a much larger percentage impact on profits, and thus are quite important. This line of reasoning is fallacious. If all other costs were the same in competing locations, then differences in tax costs would determine the location of the profit maximizing firm - no matter how small. In this case, the fact that a 1% difference in total cost means a 20% difference in profits does not matter. However, our purpose in studying tax cost differentials is to compare tax differentials with differentials in other costs. Now if tax cost is a small part of total cost, this means that a differential in labor cost will dwarf a differential in tax cost, and this labor cost will determine location and tax cost will not. For example, if labor cost is 40% of total cost, and tax cost is 1%, a 50% reduction in taxes is equivalent to a 1.25% wage differential. Wage differentials, especially between areas, are much larger than that.

With models of the relation of the value of inducements to total cost, we again see why inducements are probably ineffective in the first stage of the locational decision process - selection of an area, and why when other costs are similar - as in the choice of a site within an area, inducements become effective. This analysis gives a preview of our next discussion, which will show how inducements have different levels of effectiveness with different types of firms.

There have been some excellent studies which use the relationship between tax cost and total cost for different states and see how changes in taxes (i.e., inducements) can affect choice of state. Bridges[1] has compared labor cost, the most readily available component of total cost, in Wisconsin to that in six neighboring states for each of 12 two-digit manufacturing industries. In 30 cases of 77, Wisconsin had higher labor costs. Local property tax exemptions could have overcome this in 6 of these 30 cases. Interest cost reductions (industrial development financing) of 1, 2, 3, and 4% of gross depreciable assets would be large enough to overcome Wisconsin's labor cost disadvantage in 3, 8½, 11, and 14 cases respectively.[2]

William V. Williams[3] did a similar study for Minnesota, a notoriously high tax state. He first ranked the states in all non-tax costs for 12 two-digit industries and 38 four-digit industries. Note that the use of four-digit industries (i.e., narrower groupings) is a valuable improvement over the Wonnacott study. Williams next included state and local taxes and found that Minnesota's ranking was unchanged in ten two-digit industries, and was improved in one industry and deteriorated in one industry. Inclusion of taxes occasioned no change in Minnesota's rank in 28 of the four-digit industries, and occasioned slight deteriorations in the remaining 10.[4] The four-digit comparisons were then made between Minnesota and the upper midwestern states. Here, rank was unchanged in 34 cases and deteriorated slightly in the remaining four cases. Williams finally considered the effects of various tax exemption policies. A complete exemption from Minnesota taxes would only have altered the rank of 2 of the 12 two-digit industries. In 18 of the 38 four-digit industries, there would have been no change. Nine of the 20 affected industries would change two or more notches, while the other 11 would change by only one notch. If taxes were lowered by 33%, Minnesota's position would be improved in only one industry in the two-digit category and in only 9 of the four-digit industries. If taxes were lowered by 50%, Minnesota's position would be improved in still only 1 two-digit industry and in 15 four-digit categories.

We conclude from these tax cost comparison studies, that tax incentives cannot influence in which state the majority of industries will choose to locate new operations. However, there is a significant minority of industries that can be influenced by tax costs and thus tax policy should not be eliminated from a consideration as a force helping to determine the shape of regional development. Those industries whose costs do not vary much from state to state, and those in which taxes play a large role in costs will be most subject to incentives. Incentives do not have the power that many would like to attribute to them, but they are effective in a significant minority of cases and thus should be reckoned with.

Value of Subsidization

The next stage in this analysis is to determine the *value* of tax incentive and subsidy programs. There are two distinct parts to the analysis. First, there is the value to the locality or state giving the incentive. Secondly, there is the value to the nation as a whole. This section will show conflicts between these two valuations and will determine as well whether these programs are worthwhile on either level.

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[1] op. cit.

[2] As mentioned above, 1½% is an estimate of interest rate reduction for large firms from industrial development financing. 4% or more is reasonable for small firms.

[3] Williams, William V., "A Measure of the Impact of State & Local Taxes on Industry Location." JOURNAL OF REGIONAL SCIENCE, Summer, 1967, p. 49-60.

[4] Minnesota taxes ranged from 0.26% in grain milling to 2.08% in gray iron foundries.

The local government in a rural community can see great benefits from a manufacturing firm moving to his community. First, he sees more jobs for his city, something that is very important due to the extensive unemployment. He sees a multiplier effect–the increased wages purchasing goods from downtown merchants and possibly other firms in his area. The new firm might purchase inputs from other firms in his town. He also sees greater tax revenues coming from the firm itself, from the workers paid by the firm, and from the merchants with increased sales, etc. The only expenses that the local government sees are some additional public services and the cost of the inducement. The former will not appear large if the government thinks that excess capacity exists in existing public facilities. The latter varies but can be small in the case of industrial development financing, where it is essentially the federal government that foots the bill because of the federal tax exemption on these bonds. In short, offering an incentive to a manufacturer to move to town seems an excellent idea from the vantage point of the local government.

Rinehart[1] has done some crude quantification of the above and has found that the rates of return to municipalities on tax incentives and subsidies to firms are phenomenally high. Though these estimates are open to question, it is doubtful that most criticisms would bring these rates of return below the borrowing rate faced by municipal governments, which is low due to the tax exemption on municipal bonds. It is no wonder that inducements to industries by communities are so widespread. Gooding[2] estimates that in New England, four out of five communities grant legal or extra-legal tax concessions for "desirable" firms. Industrial development financing has been doubling in volume every year with a $2 billion dollar estimate for 1968 unless the tax-exemption law has changed. The chief impediments to the use of these programs are legal constraints by states. If not for these, the extent of subsidization might be enormous.

We will show in the remainder of this chapter that the returns to the communities might not be so high, and that many benefits to the communities are not benefits to the nation.

Estimates of the rate of return to the community need to be reduced significantly since some proportion of firms locating in the community would have done so without subsidization. The studies described in the previous chapter indicated that most industries could not be affected by tax costs in their choice of location. Many factors influence total costs in far greater degree than do taxes, and thus dominate the locational decision. Thus, the community offering inducements must realize that some proportion of the firms accepting these inducements would have located in the town anyhow.[3] When this proportion is taken into account, the benefit-cost ratio and thus the rate of return over cost is drastically reduced. If one out of two firms of equal benefit would have come without subsidization, then the benefits of those firms which can be ascribed to the subsidy must be cut in half. If three out of four would have come without subsidization, benefits are only one fourth of those previously calculated.

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[1] Rinehart, James R., "Rates of Return on Municipal Subsidies to Industry," SOUTHERN ECONOMIC JOURNAL, April, 1963, pp. 297-306.

[2] Gooding, Edwin, "New War Between the States," Part I, NEW ENGLAND BUSINESS REVIEW, October, 1963, 11, pp. 1-5.

[3] In our field work we came across a situation where the firm asked the community for subsidization. The community made an attractive offer, and the firm then located in the community without accepting the subsidy. The community's willingness to offer a subsidy was used as an index of community attitude–more important to the firm than the subsidization.

Another factor which, if recognized, would reduce the perceived rate of return on subsidization is the increase in required public expenditures which industry stimulates. Factories require water, sewer, police and fire protection, etc. If workers migrate to the community for jobs, additional burdens are placed on schools, etc. Often the additional public expenditures from an influx of industry are quite large. The section on public services in this report discusses this problem in detail. Local governments tend to underestimate these increases in demand for public services by a considerable magnitude.

It is also important to evaluate subsidization from a *national* point of view. Many of the benefits to a locality are not benefits to the nation. Many costs accrue to the nation which are not realized by the locality. We must note first that when one community induces a firm to locate there, another community loses that firm. The gain to the nation of inducing it to locate in community A are not the firm's payroll and taxes paid, but only the saving in real costs over locating in community B, which we assume to be the place that the firm would have located if there were no inducements. These real costs will be discussed below. We see already, however, that the benefits to the nation are much smaller than those to a community. The costs to the nation are also different. In the context of the nation, the monetary value of the inducement becomes merely a transfer payment from governments to business. Whether such a transfer is desirable is a question of equity, not of efficiency. A real social cost is incurred, however, in the expenditure of resources to collect the taxes and administer the subsidy. What one party loses is gained by another.

To evaluate whether inducements are in the national interest, we must decide whether it is best for society to have industry locate in community A or community B. To begin with, we assume that as far as costs to the business firm are concerned, they are lower in B. Otherwise, subsidies would not be necessary to induce the firm to locate in A rather than B. To justify inducements, we must show that *social* costs are lower in A. If this cannot be done, then inducements impose a net cost on society. The following arguments can be used to explain why social costs might be lower in A:

1. Infant Industry - Training of Labor
2. Imperfect Capital Markets
3. Wage Inflexibility
4. Population Direction
5. Political Equity

The first argument relates to the training of labor, and assumes the *immobility of large segments of the labor force*. In rural areas of the United States, there is a large amount of unskilled, uneducated labor. This labor is trainable, but cannot efficiently produce in an industrial setting without training. In most cases, it is socially profitable to train this labor - i.e., the discounted extra product that each worker will produce as a result of the training is greater than the cost of training. Though it may be socially profitable for society to invest in the training of this labor, it often is not profitable for the firm. A firm cannot count on retaining in its employ workers it trains for a period long enough to justify training costs. Once workers are trained, other firms may well come into the area and bid them away. For this reason it is not profitable for a firm to come into the area and train this unskilled labor. Thus, we have one reason why social cost might be lowest in community A, having large numbers of unemployed, immobile, untrained laborers, while private costs were lowest in community B, having trained labor. If subsidization induced the firm to locate in A and train the labor, it would benefit society. A subsidy paid per worker trained would be a type that could accomplish this.

The second argument - *imperfect capital markets* - is another case of the labor situation above. Assume that the firm will not lose much of its trained labor to other firms, so that training is profitable to it. Still there might be a problem in financing the training. Training involves large initial expenses with returns coming in over a long period. As small and medium size firms often have problems borrowing in the capital markets, they may not be able to raise the capital to finance the training, however potentially profitable training may be. Thus, subsidies providing capital may be justifiable in areas where the capital market is imperfect and where the labor force is untrained and immobile.

A third argument focuses on *institutional impediments to market clearing in the labor market*. Unemployment can be caused whenever minimum wages and union power keep wages above the marginal product of labor. In areas where the marginal product of labor is very low, the unemployment can be severe. Since wages are greater than marginal productivity, firms will not locate in the area to exploit unemployed labor resources. Wage subsidization is seen as a substitute for wage flexibility. The benefit to society is the reduction of unemployment and the extra product produced as a result. This argument is an argument for subsidy to firms wherever they locate. It only becomes an argument for differential subsidies between locations to the extent that the institutional floors on wage rates are higher in some areas than in others, and to the extent that training is available in some areas and not in others to raise the product of labor above wage rates. Both situations still require the assumption of labor immobility.

In all the above three cases, migration offers an acceptable alternative to subsidization. People can be moved to areas where training is currently available and/or where institutional impediments to employment are less. Subsidization, which aims at moving industry to people, is valid only if its costs are less than those of migration. To date, the economic costs of migration have been measured poorly at best, and the social, political, and psychological costs of migration have been ignored. Nevertheless, the disregard by policymakers of migration as a policy instrument, the willingness not to tamper with voluntary private labor mobility, implies that the government has other goals beyond maximizing economic per capita income, obtaining full employment, and reducing economic poverty. This point is discussed further in Section V, where policies which depend explicitly on migration schemes are questioned as to political feasibility .

A fourth argument for subsidies might rest on a public desire to distribute population optimally. Today, many feel that it is desirable to slow the rural-urban migration since our urban areas are becoming increasingly congested and also cannot absorb large numbers of unskilled, nonacculturated migrants. Firms locating in urban areas do not include the congestion they cause in their cost functions. Subsidization to induce firms to locate in rural area A rather than urban area B is one alternative solution to the problem. Thus, in Britain, subsidy programs have been designed to shift investment away from London, which is becoming very congested.

Alternatively, the costs of providing housing and public services in some areas may be more expensive than others. Or, there may be greater social costs in the form of higher crime rates, disease epidemics, fire hazards, and political unrest when certain kinds of individuals are massed together. Large ghettos or masses of people may breed or perpetuate cultural mores which the society deems unproductive or undesirable. Thus, society opts for a policy regulating the spatial distribution of population and subsidies are adopted to affect socially costly private market processes.

The fifth argument is political equity. Americans feel that people in areas of our country that are economically depressed ought to be helped. Bringing industry into these areas with inducements is one way of helping these people. Aiding their migration is another. The latter is often more efficient, but as some people do not want to move, the former is justified on equity grounds.

We have seen that inducements to industry are in the national interest if they reallocate investment so as to increase the aggregate social return. Inducements are also in the national interest if they increase the aggregate amount of socially desirable investment - this being defined as investment with a rate of return greater than the marginal efficiency of capital. In other words, adding investment projects with a rate of return of 1% is not in the national interest. What is socially useful, is to add investment projects with high expected returns, which would not otherwise be undertaken due to market imperfections , external economies, etc. The arguments given for inducements to allocate investment to community A from community B apply here, also. If inducements produce additional investment in community A, rather than merely reallocating investment, such inducements may be desirable since the social rate of return on projects in A is higher than the private rate of return in B.

The most important argument for stimulating the volume of investment via inducements is called the "credit gap" argument. It is a phenomenon of our credit system that small and medium size firms have difficulty obtaining long term credit. They are not asked to pay high interest rates but rather are frozen out of the market completely. If these investments have a high enough rate of return, then subsidies which provide credit for these projects are in the national interest. There is impressive evidence that small and medium size firms must pass up potentially very profitable expansion due to lack of credit. This evidence comes from the experience of the statewide development credit corporations. These privately financed corporations have made loans to small firms of an average size of $90,000 with maturities of 5-10 years and interest rates of 6-8% [1] . All of these development credit corporations have made profits, with rates of return similar to commercial credit agencies. There is an element of subsidization from donated labor - the time donated by local businessmen to investigate loan applications, but to eliminate this subsidy, interest rates charged would be raised only to the 7-10% area. Gooding estimates that when commercial credit is available, these small firms are charged 12-16% [2] . This strongly suggests that there are a large number of situations of smaller firms with excellent expansion possibilities which are at present not being undertaken because of lack of credit.

[1] Bridges, Benjamin, Jr., Part II, op. cit.

[2] op. cit.

Let us note at this point how different the costs and benefits of subsidization programs to the nation are from those to local communities. The costs and benefits to localities can explain the present pattern of subsidization and predict its future course if it is not interfered with. The costs and benefits to the nation should shape our policies in creating new subsidy programs and controlling older ones. Whether our present system of subsidization by localities satisfies the criteria of social benefit will be the topic of the next discussion.

Optimal Methods of Subsidization

Who Should Give Subsidies?

This section discusses whether the existing system of offering subsidies by state and local governments should be discouraged and instead administered by a national body, such as EDA.

John Moes[1] has argued that competition for industry among towns is efficient. He feels that towns with the greatest unemployment will make the highest bids; and thus competition will allocate resources optimally.

We feel that competition among towns, besides being wasteful (which we discusss below) will not allocate resources optimally. First, the towns with the greatest unemployment are usually the poorest and can least afford to subsidize industry. Their ability to borrow on expected future returns of a subsidy investment is handicapped further by the imperfect capital market. This casts doubt on the expectation of Moes that they will make the largest offers. Moes also assumes that only towns with unemployment will offer subsidies. This conflicts with the fact mentioned above that four out of five communities offer incentives to firms.[2] Though many towns have full employment in the aggregate demand sense, most communities in this country have unemployment among their unskilled workers. This type of unemployment is a national problem in addition to a regional one. The Moes argument further assumes that the unemployed can make their presence felt by local government in a policy sense, or that the unemployed can themselves organize to offer incentives. This assumption is shown to be faulty, elsewhere in this report.

In addition to the fact that most towns can be expected to bid for industry, despite their general unemployment rate, there is no reason to expect the bidding for industry to follow a rational pattern. The rates of return to towns on subsidization expenditures appear to the towns to be extremely high (although doubt has been cast on this assumption)[2] . Thus as the standard range of bids is far lower than the *apparent* benefits, we cannot expect the bids to be ordered in the same way as are the benefits.

Another very important difficulty in subsidization by local governments is that they fail to take into account the effects of new industry on other towns in their region.

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[1] Moes, op. cit. (See p.51) Note that Moes considers wage inflexibility to be the justification for subsidization.

[2] Note discussion of Rinehart above.

Industrialization of one town has many benefits and costs to neighboring towns. Many of the multiplier effects of growth are realized in other towns. This would cause a town to underestimate total benefits of a project. This is particularly significant when the federal goal leads to a "growth center" strategy for the development of a region. This strategy realizes the importance of economies of scale in public services, recreational and cultural facilities, etc. Subsidization by local government fails to further a growth center strategy for regional development.

Another aspect of this problem of who should give subsidies is the one of minimizing the needless transfer of public resources to private business firms. Competition among local governments should not cause subsidization to be in excess of that which is required to cause firms to invest in certain areas. We feel that subsidization by local governments puts the public sector in a weak bargaining position vis-a-vis business firms and causes a needless transfer. This situation results in an oligopolistic market. The number of firms seeking new locations is much smaller than the number of communities seeking new industry. The firms have the advantages of greater knowledge of the market and more competent management. Towns in an area often have little differentiation in economic characteristics. This increases the market power of the firms.

In summary, we feel that the offering of tax incentives and subsidies by local governments causes a misallocation of resources and a waste of taxpayers' money. We feel that subsidization should be given on a national or regional basis. As will be shown below, we feel that this method of subsidization will enhance the bargaining position of the public sector vis-a-vis business firms and will allocate industry in a more efficient manner.

The first point to be explained is why the bargaining position of the public will be enhanced if subsidies are given by regional or national authorities. In a market where both buyer and seller are oligopolistic, the relative power of each side depends upon the number of sellers (buyers) and upon the extent of differentiation. For instance if the buyers are large in number, and are not differentiated, their bargaining power will be weak against sellers who are few in number and differentiated in product. Thus the sellers will capture most of the surplus. This is the situation when many small towns offer incentives to industry. Towns in the same region are relatively undifferentiated in attractions to industry. Now, if subsidies could be offered on a regional basis, there would be fewer buyers (of industrial jobs) and more differentiation among buyers (as regions are more differentiated than towns within a region). Thus the offerers of subsidies, i.e., the buyers, would gain bargaining strength.

The second question is why resources will be allocated more rationally with regional administration of subsidies. Above, the misallocations from town administrations were noted. In theory, all of these can be avoided. The region can offer a firm a subsidy if it locates in town A in the region. This town will have the greatest need for industry and will have the best effects on other areas of the region. Though in theory, allocation by a regional authority can be optimal, we must question what the allocation will be like in practical situations. We must ask what will the deviations from the optimum be from the political forces set in motion by regional allocation and from the lack of information on towns in the region.

To study what the practical allocation of industry will be like, let us consider an extreme case. Assume that within the regional administrative agency there was no attempt to choose locations for industry on a rational basis so that the result was a completely political one. Industry was allocated according to the political power of each town. This allocation of industry would not be any worse than the pattern with subsidization by towns. Allocation by political power would let the wealthier towns get more industry, as they are able to with their higher bidding power.

There are many ways to keep the selection of towns away from this extreme of complete political determination. The regional authority can be given guidelines to follow. This will move allocation toward the rational pattern. Also, subsidies can be restricted to firms that hire hard core unemployed and other categories of workers. This will cause the allocation to be much closer to national objectives (described above). In sum, we feel that with restrictions and directives, regional administration of subsidies will give a better allocation of industry and will increase the bargaining power of the public.

Relation of Method of Subsidization to Type of Firm Attracted

The various types of tax incentives and subsidies have differing degrees of attractiveness to different types of firms. Rebates of state corporation income taxes and accelerated depreciation are most attractive to firms with stable profits. As these taxes are based on profits, only profitable firms can benefit from them. They are of greater importance to stable firms. Unstable firms are interested in protection against bad years, rather than making good years better. Thus these firms are more interested in subsidies that affect fixed costs.

The property tax exemption affects fixed costs. This would appear to be equally valuable to firms of all sizes. However, there is evidence that the ratio of tangible property to value of shipments increases with firm size.[1] Thus property tax exemptions might be more attractive to large firms. Property tax exemptions are more attractive to capital intensive firms than to labor intensive firms, as the former have a higher ratio of tangible property to value of shipments. This type of tax incentive is attractive to new firms, as it affects fixed rather than variable costs.

Subsidies that provide capital through low cost loans, industrial development bonds, or provision of plant are more attractive to smaller firms than to larger ones. Generally, the smaller the firm is, the higher the interest cost charged from conventional credit sources if credit is available at all. Thus, smaller firms obtain a much larger interest subsidy. As some small and medium size firms cannot get capital at all, the value to them is great. As with the property tax exemption, provision of capital is most attractive to capital intensive firms.

To summarize this point, we have examined the relation between type of incentive and size, and have found that income tax exemptions are essentially attractive only to large corporations, while property tax exemptions are attractive to all, but more so to large firms. Provision of capital is most attractive to small firms.

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[1] Bridges, Benjamin, Jr., op. cit., p. 178, from U.S. Treasury Department data.

Wisconsin Local Property Tax and Various Percentages of Gross Depletable Assets as Percentages of Value of Shipments By Manufacturing Industries: 1958

		(1)	(2)	(3)	(4)	(5)
			Gross Depreciable and Depletable Assets			
	Industry	Local Property Tax*	1% of	2% of	3% of	4% of
20	Food products	0.37	.20	.39	.59	.78
23	Apparel and related products	.42	.09	.18	.27	.36
24	Lumber and wood products	.74	.36	.72	1.07	1.43
26	Paper and pulp products	.55	.39	.78	1.18	1.57
28	Chemicals and products	.52	.26	.52	.79	1.05
30	Rubber products	.56	.26	.52	.78	1.04
31	Leather and leather goods	.64	.16	.32	.49	.65
32	Stone, clay, and glass	.42	.29	.59	.88	1.17
33	Primary metals industries	1.40	.48	.96	1.44	1.92
34	Fabricated metal products	.77	.31	.63	.94	1.26
35	Non-electrical machinery	.97	.33	.65	.98	1.30
36	Electrical machinery	.90	.27	.53	.80	1.07
37	Transportation equipment	.68	.30	.59	.89	1.19
38	Instruments and related products	.39	.10	.19	.29	.39
	All manufacturing	.68	.30	.60	.90	1.20

*In 1961 Wisconsin reduced taxes on manufacturing property.
Source: 1958 Census of Manufacturers

Table from Bridges, Benjamin, Jr., op. cit.

Great Britain has used labor subsidies a great deal. Essentially a labor subsidy is a payment by the public to a firm which is a function of the firm's employment. In its effect, it can be called a wage subsidy. It allows a firm to pay a worker a wage greater than his marginal productivity. Some types of labor subsidies are restricted to labor that is being trained. This is specifically aimed at the first and second reasons why subsidization might be in the national interest (labor training, imperfect capital markets). As a general subsidy fulfilling the third reason (wage inflexibility), we see that labor subsidies conform rather closely to our objectives. The major drawback of labor subsidies which are not restricted to training is that the incentive to migration is lost.

As another issue in the discussion of the best means of subsidization, it must be noted that growth of firms already in a town should not be overlooked. Expansion of firms already in towns has been an important factor in the success of rapidly growing towns. From the national point of view, indigenous firms should never be discriminated against in subsidization. This has often been the case in the history of local subsidization. It is a rather inefficient situation when two identical firms in two identical communities must each set up their branch plants in the other community to take advantage of programs to subsidize new firms.

Size of Town and Subsidization

One difference between the subsidies offered by small and large rural towns is the greater possibility for under-the-table subsidies in small towns. Larger towns use professional assessors, who are often not amenable to low assessment as a subsidy. Another difference is the greater ability of larger towns to market general obligation bonds. This would give larger towns an advantage in subsidizing firms too small to use industrial revenue bonds. It is probably the case that tax rates are higher in large towns than in small towns, principally because of higher public service levels in the former. If this is the case, then larger towns can offer larger subsidies through property tax exemptions. The discussion above indicated that the most effective subsidy of this group is provision of capital to small firms. As large towns have an advantage in this type of subsidization, it can be concluded that larger towns have somewhat of an advantage in subsidization.

CONCLUSIONS ON LOCATION SUBSIDY PROGRAMS

1. Property tax exemptions are of little value in attracting firms to rural areas. An exemption of property taxes has only a slight effect on costs of firms which use a good deal of labor in rural areas. The same applies to provision of capital to large firms.

2. Provision of capital to small firms is an effective way to stimulate the growth of rural towns through subsidization. The efforts of the Small Business Administration and EDA in providing low cost capital to small firms are applauded. Though labor subsidies are preferred for rural areas, provision of capital for small firms is sufficiently effective to warrant its use.

3. Labor subsidies, hitherto seldom used in the United States,[1] *are particularly well suited to national objectives in rural areas. They are effective in inducing firms to train rural labor, both in the sense of giving labor skills and giving labor industrial experience. They are particularly effective in attracting labor intensive industries to rural areas since labor is a large factor in costs of these firms.*

4. Subsidies ought to be given on a regional or national basis instead of a local basis. With proper guidelines and restrictions, regional authorities can not only save public money by increasing bargaining power, but also by more optimal allocation of industry among towns in a region, and allocation which takes into account town needs and regional effects.

5. Subsidies should always apply to firms undergoing expansion in the same location as well as to those relocating.

These conclusions are combined, in Section VI, with those from other sections in order to formulate policy and program recommendations. The policy implications of this analysis of location subsidies *alone* would seem to be:

1. Subsidization of industry to help rural areas should be undertaken by a level of government above the local level. Local incentive efforts should be actively *discouraged.* One way to do this is to end the tax exemption privilege of industrial development bonds. States should be encouraged to make local property tax exemptions illegal and end corporation income tax rebates. States might be induced to accomplish these things by only permitting those states which have conformed to participate in federal subsidy programs.
2. It would be best to administer a federal program of subsidization "through regional offices (possibly administered by EDA.) Working through EDA has the advantage of coordinating these efforts at regional development with EDA's public works programs.
3. In addition to a federal program administered by regional offices, more emphasis on general programs of labor training subsidies for the hard-core unemployed is recommended. This subsidy should be restricted to firms who increase their employment and hire hard-core unemployed workers to fill these new positions, where possible.
4. Private development credit corporations which lend to small and medium sized firms should be encouraged. A subsidy to these organizations should be considered.
5. Public development banks for rural areas should be formed. Federal money should be used as seed capital, with private credit used for the bulk of the lending. Guidelines might include restrictions to small firms which are growing, and to those rapidly growing medium-sized firms which are hiring unskilled labor.

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[1] The U.S. Department of Labor's JOBS programs are recent exceptions.

A BROADER GROWTH-INCENTIVE CONCEPT

The discussion above has pointed out how, in a small town, there is probably a tendency to sacrifice a larger than necessary proportion of the town's resources in order to attract new industry. This is elaborated upon in Section III, where it is shown how industry skews a small town's expenditures on public services. This situation is the outcome of a competitive process in which each town has a strong incentive to offer a bit more than its rivals with the result that all towns follow suit, the final equilibrium leaving the firm and not the town as the net beneficiary. It is alleged, overall, that the small towns, working within the bounds of state policy, are inefficient in gathering and utilizing resources, and the conclusion reached is that federal programs should both increase efficiency and supplement the town's resources so that social needs can be met.

A single federal agency with an interest in growth center development and in the social needs of the small towns will benefit from evaluating all local, state, and federal programs as means to that one end. The discussion has so far dealt only with local, county, and state subsidy and incentive programs aimed at industrial location. Some federal programs aim at this end, as well, but they are mostly concerned with providing for the needs of the people without explicit consideration for the stimulation of industrial growth. (EDA programs are the prime exception.) *These programs should be viewed, as far as growth strategy is concerned, as subsidies to growth in much the same sense as are industrial location programs.*

Several arguments, based on the foregoing analysis of subsidy instruments, can be used to support this viewpoint that all available public resources should be diverted toward a common goal: growth through human resource development. First, the several location studies to which this report has thus far referred, in addition to our own field interviews have showed labor cost and availability to be of far greater importance as a location incentive than tax differential. This would indicate that local and state resources should be allocated to program types, dealing with human resource development which have been more the domain of federal agencies.[1] The development of a marketable labor force requires an investment of resources, for example DOL's Concentrated Employment Program, with a target area focused upon. This argument is made solely on location-inducement *effectiveness* grounds.

A second argument is that capital subsidies and tax incentives are location-specific incentives to growth. If the point of investment (the selected city) undergoes the expected growth, then the investment is vindicated. However, if the firm fails, or some unforeseen event results in that city not being the best choice in the region, the investment cannot yield as high a return because it cannot move. This is not so for labor development programs, because the developed human resource can move elsewhere.

A third argument for considering all public funds as available for a "growth incentive" program is based on the fact that tax incentives, industrial aid financing, and capital subsidies, as presently administered, are totally aimed at inducing the firm to locate, and at nothing beyond this. In contrast to this, the development of a labor force may accomplish both the location incentive goal and a distributional goal as well.

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[1] States have, of course, been involved in human resource development, primarily through state-run vocational educational schools. We suggest however, that a greater effort should be made.

Arguments that this distinction is not valid are not convincing in reality; the most likely argument of this type is that capital subsidies allow firms to accomplish socially desirable functions such as labor force development because they free resources. This is nowhere supported in our field studies; it is furthermore not logical if a firm is accepting an incentive in order to cut *total* costs and achieve a greater profit.

These three points, then, argue that resources should be allocated to the most effective location incentive, that "bets should be hedged" by (where possible) investing in programs which *need not necessarily* be location specific, and that if public agencies are able to broaden the benefits received per dollar invested, they should do so. This discussion has so far assumed that population and employment growth, in *absolute* numbers, is the goal, within a growth strategy. It has not yet acknowledged the problems cited in Section II, which were based on the absence of any effective mechanism to transfer some of the benefits of economic growth to a *disadvantaged population.*

The shifting emphasis within subsidization programs has been justified, then, on efficiency grounds. It can be persuasively justified as well on social grounds, by broadening the benefit-cost framework within which subsidies are considered, and at the same time including traditional subsidy-types in the "public assistance to social development" category, where they have in the past been assumed not to belong.

To illustrate, a program planning and budgeting framework is used. First, imagine three separate systems, one local and state, and the other two federal. Each system has its own goal and set of programs with which to achieve that goal. These can be outlined as follows:

Jurisdiction	Goal	Program Set
State and Local	Attract new industry to state or town	1. Tax Holiday 2. Industrial aid financing 3. Interest Subsidy (etc., as per discussion above)
EDA Public Works and Business Loan, SBA	Attract new industry and stimulate new business in qualifying areas; eliminate bottlenecks to economic development	1. Public Works/industrial Infrastructure 2. Public Works/economic 3. Business Loans
Other Federal (HUD,OEO, DOL HEW, other EDA	Relieve social problems	1. Work directly with problem population in a number of ways, depending on function of agency

It is, first, acknowledged that EDA has as its end goal to lower unemployment and raise incomes; however, the industrial development bias is paramount, and is therefore stated explicitly for the purpose of this exercise. From the federal standpoint, industrialization of a distressed area is desirable only because it is likely to increase the living standards of a disadvantaged segment of the national population. Industrialization brings income and jobs, but as has been discussed, it is not always clear that these benefits "trickle down" to those most in need. It would therefore seem to make sense, if it were possible, to integrate these goal and program structures:

Jurisdiction \ Goal		Program Set/Subprograms
All levels	Establishment of towns which simultaneously satisfy residents' geographical location preferences and offer satisfactory levels of employment, income and public services, as measured by the rate of "involuntary" out-migration for various population groups.	1. Industrial Location Incentives Tax incentives Capital subsidy Interest subsidy Wage Subsidy 2. Industrial Infrastructure 3. Social Infrastructure 4. Human Resource Development 5. Community Planning

The justification for this viewpoint can also be explained with reference to the "market for industry" concept developed earlier in this section. That model showed that local governments, or groups acting on behalf of local governments, attempt to maximize what is perceived as the town's utility function by "purchasing" a stream of income produced by industry. From the point of view of the individual community resident, *the benefits that accompany new industry and the costs required to secure it are different for different groups of people.* New industry is in fact only a quasi-public good. Once new industry is acquired, its benefits cannot be withheld from any member of a qualifying group: skilled workers, land owners, whites, etc. However, residents who are not members of one of these groups may not benefit at all or if they do, their gain relative to costs may fall short of other groups.[1] The federal government's goal differs from that of local government since the *distribution* of benefits is considered by the federal government to be as important as the level of benefits. It is therefore in the federal interest to structure its programs in a way which will induce local and state government to use their resources within a common goal structure with federal assistance.

The question of groups and goals is an important one. The point was made earlier that clearly, the poor have not had the means to organize in order to provide their own incentives to industry which would locate to employ them. The group which stands to receive the greatest social benefit from new industry *is not* attracting this industry. The social return to subsidization would seem to exceed the private return in this instance. Official local groups have not been able to effectively represent this population. Therefore, the federal government falls heir to this problem which is both political and economic.

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[1] The benefits from industry include income from employment resulting in direct and indirect forms. If disadvantaged citizens, even if not employed directly by manufacturing, were employed in residentiary jobs which were created as a consequence of industrial growth, they would be receiving benefits from manufacturing. Our field studies did not, however, show that this population was taking the places of workers who left residentiary jobs for employment in export base manufacturing. In fact, residentiary positions, broadly categorized as "service" jobs, were found to be the most restricted to whites.

Program Interdependency

In subsidizing the federal goal of increasing the standard of living of disadvantaged groups, then, federal, state, and local goals should be harmonized. The fact that programs are very interdependent as to impact increases the need for goal coordination. Consider the following five program types:

1. Programs concentrating on human resource development
2. Programs concentrating on Industrial (physical) infrastructure development
3. Programs concentrating on social infrastructure development
4. Programs encouraging community-wide planning
5. Programs concentrating on industrial location incentives

Each of these categories has certain characteristics relevant to growth center development, but each also requires the existence of the others. For example, programs to develop the human resource cannot assume that the program output ("graduates") will not move somewhere else. If such a migration possibility is accepted, then this program type is properly financed by a regional or national body. Two types of efforts, however, can be made to retain the developed human resource if the intention is to develop the population of a particular center: social infrastructure, including amenities, and job availability. Industrial infrastructure is geographically restrictive and fixed in nature. A water supply system or industrial park cannot be moved. Growth center strategy would assume that policy would aim at utilizing the facility to maximum capacity, once the decision to invest is made. Both social infrastructure and human resource programs can help to assure that the labor force available to the users of the industrial infrastructure will grow, and that a local market for some firm's products will develop through local population growth. Third, housing programs, like public works programs, are fixed as to location, and presuppose the growth of the city where they are located. Therefore, human resource development and industrial programs, if they increase the availability of workers and jobs, can increase the efficiency of this investment. Furthermore, human programs may have the effect of decreasing the deteriorization of housing units, through the development of better living habits.

The interdependency of these programs makes their phasing important. It must be assumed that human resource development programs increase mobility. If the three program types are implemented sequentially, and human precede industrial programs, then much of the potential labor force trained can leave. An effort to avoid this by locating industry first, however, violates the principal put forward above that an industry may not locate without a labor force upon which to draw. If a benefit cost allocation is ever relevant within this environment of interdependent federal programs, it must measure the effectiveness of any one particular program in achieving a unified goal by enhancing the other programs which are operating. Benefits attainable from an investment, say in subsidizing the location of a firm by using a wage subsidy, can be higher or lower depending upon the existence or nonexistence of a labor training program. Similarly, the *cost* of achieving a goal by means of a given program will depend upon the presence, relative or absolute, of *other* programs.

SUMMARY - SUBSIDIZATION OF GROWTH

This section has shown that standard incentives to industrial growth in small towns are often neither efficient nor effective. Furthermore, the existence of interest groups with different economic and social goals, and a weakness in information and thus in bargaining power on the part of town representatives, tends to tip the bargaining advantage towards industry, in terms of costs incurred vs. benefits received. Lastly, the people who have the greatest need for the benefits industry can bring, the disadvantaged, do not have the power to "buy" those benefits.

The encouragement of industry to locate will not alone lower unemployment to an acceptable level, as shown in Section II. The best expenditure of funds from the federal standpoint is that which will attract the source of new economic benefits, industry, and at the same time integrate the disadvantaged into industrial jobs. Since all public funds are limited, and since some local programs (tax-free municipal bonds) represent costs to the federal government, it is desirable from a federal standpoint to guide all resources, local, state, and federal, to the achievement of federal goals. These goals involve a greater commitment to alleviating the plight of the disadvantaged than do the goals of either local government or industry. If federal assistance is to be given to a town, it is desirable to ensure that local policy will support the goals of that investment, and that other forms of federal assistance be made available as support.

Any planning process entered into by federal and local agencies should therefore attempt to achieve this end. The OEDP provides a vehicle for doing this kind of planning. The EDA program structure and allocation criteria should be modified in order to provide incentives for:

1. industry to locate
2. industry to hire the disadvantaged
3. towns to conserve resources and to transfer income to the public sector
4. towns to cooperate with federal goals by assisting the disadvantaged (which involves accepting federal programs with broad "social planning" content, on which towns have been cautious.)

Specific recommendations for program formulation on these points are contained in Section VI.

SECTION V

E D A GOALS, GROWTH CENTERS, AND SMALL TOWNS

p 129 blank

V. *INTRODUCTION*

At this point in time, the Economic Development Administration is left faced with a sizable gap between the theoretical precepts of regional economics and resource allocation policy *vis-a-vis* small towns. An agency traditionally oriented to the stimulation of industry in depressed areas, it increasingly receives the suggestion that it must make scarce resources count by allocating them to points of assured growth potential. It has been left undefined, however, except in the vaguest of terms, exactly what assured growth potential is. Too often, analysts have resorted to the normative exercise of attempting to set a minimum size for a city with such potential, and this has resulted in even more confusion for the policy-maker. Economic space has been analyzed and described, but few instructive conclusions have been drawn.

The real question is: what effect should size, economic function, location and other characteristics of a town or city have on EDA's decision to provide assistance to it? Guidance supplied by EDA to date has concentrated in the main on size, with a weakly defined secondary assertion that economic function is important. The following discussion will examine this question in relation to the foregoing sections, and will conclude by commenting on the Economic Development District and District Development Center concepts now being used by EDA.

WEAKNESSES IN THE REGIONAL WELFARE MODEL

First, the regional welfare model described in Section I and summarized below can be found lacking as guidance for policy-making on two grounds: It ignores several economic and political realities which either do not operate in the way predicted by the model, or which determine the way that the model functions, and thus cast doubt on the model's inevitability; and the conclusions drawn from it are not acceptable to a current program planner. The generalization which ignores the exceptions does not render the model useless, because the generalization is a useful explanation of how economic development forces have in the past generally shaped economic space; the inability to formulate policy from it which will solve the major socio-economic problems is serious, however. The following remarks will show how the model is divorced from reality in a significant number of cases.

The model views an economic plain upon which economic gradients emanate from cities classified in hierarchal terms. Large urban centers possess economies of scale and agglomeration, and these and urban amenities attract employers paying high wages. The farther one moves from an urban center, the lower his welfare is in terms of income, land values, and job and educational opportunities. "Rural areas offer few opportunities for scale and concentration and no external economies."[1] The conclusions are therefore to put resources into "centers" and to encourage migration to cities with more opportunities. Berry, in the paper quoted from, concludes that, "perhaps the greatest payoff in terms of both employment and unemployment seems to lie not in putting resources into centers very much smaller than this maximum (250,000) however, but in using the public treasury to enable centers close to that point to achieve self-sustaining growth."

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[1] Berry, Brian J.L., SPATIAL ORGANIZATION AND LEVELS OF WELFARE: DEGREE OF METROPOLITAN LABOR MARKET PARTICIPATION AS A VARIABLE IN ECONOMIC DEVELOPMENT. Paper prepared for the Economic Development Administration Research Conference, Washington, D.C., February, 1968.

The model as stated ignores the following current events and professional opinions:

1. Industrial firms with regional upgrading potential have located, in significant numbers, in selected small towns. These firms have located because of acceptable transportation and market accessibility, because of the existence of a labor force, and because of town salesmanship.

2. Certain small towns are upgrading the living standards of large population groups. This is not the same argument as often given in defense of rural living, that some people "like to live in rural areas." This argument is based rather on the fact that populations who for various reasons are still living in rural areas, are having their welfare upgraded by the development experienced by some towns. Evidence of this has been given in the foregoing sections, which show that small towns can command sizable labor markets, and have helped to stem out-migration from multi-county areas.

3. The towns do require assistance for public services as shown in Section III. Thus they qualify for aid on a "need" basis.

4. The assertion that human development programs should be encouraged to increase human mobility and to encourage migration to areas with greater opportunities is fully supported by this report. As discussed below, the time required for this mechanism to produce results is unfortunately longer than the economist would desire. Therefore, this report is recommending programs in addition to that of education. A restatement of the recommendation that migration should be "guided" to regional growth centers and away from urban ghettoes should be that migration which occurs despite the programs implemented in small towns be guided, where possible. Problems may be encountered in directing migration, since the black population will have to break with past migration habits, which have taken them out of the region into big city ghettoes. In addition, direct incentives to migration would have to prove effective, a question on which there is little evidence to date.

5. The "directed migration only" program for small towns, concentrated on human resource development, assumes that local governments are presently disposed toward implementing these programs. The model ignores the existence of a political superstructure on the economic plain, and does not recognize that it is essential to develop programs which will result in the cooperation of local institutions with federal goals.

6. As discussed at the beginning of Section I, the differences in service efficiency between large urban centers and small towns are probably less than have been claimed. Investment in small towns is justified on equity grounds, but the fact that efficiency losses will not be as great as supposed adds support to the argument that investment in selected small towns should be undertaken. Also, increasing social disruption in large cities caused by in-migrants is likely to lower the alleged big city efficiency advantage, with particular reference to police, fire, and "city hall" services in general.

To clarify the major point being made here: All of the disadvantaged population in rural areas will not respond immediately to greater opportunities elsewhere, even if provided with relocation incentives. This is mostly due to the activities of small towns and the leadership of these towns, and to the location preferences of some industrial firms; these towns attract industry, which in turn provides jobs. (Although the disadvantaged do not receive "their choice" of the jobs, the new opportunities that do exist partially suppress out-migration).

A second type of criticism of the model deals with timing, social needs and political feasibility.

1. Awaiting migration which would equalize returns at the margin is correct in theory, and would be acceptable in a policy sense if there did not exist an interim period during which the disadvantaged remain extremely uncomfortable. (For the extremes in discomfort, see the New York Times account of the activities of the Tufts Medical Center in Mound Bayou, Mississippi.[1]). An "education only" policy, therefore, does not recognize the urgency of the social problems existing.

2. Since the very poorest conditions for the most part refer to the Southern black, and since he has not tended to migrate to centers within the region, the choice may be between solving his problems in the small town or in the large northern city, unless he can be convinced that the regional center is a viable alternative.

3. It is extremely unlikely that the strong political forces with constituencies in rural areas will allow resources to be completely diverted to cities of 250,000 and above.

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[1] New York Times editorial page, March 26, 1968.

ECONOMIC DEVELOPMENT DISTRICTS AS CONCEIVED -- PROBLEMS

The EDA development district concept was developed with reference to, but not with any strict dependence on, the model described and criticized above. The development district is a concept and structure which encourages planning over a broader area than that contained in a county, which has previously been the evaluative and program unit for EDA funding. Thus, the EDA development district Overall Economic Development Program (OEDP) requires that local community representatives reach agreement on what economic goals are attainable for a district, this district being large enough that some form of economic activity is viable within its boundaries.

Development Centers

The district concept requires that a "development center" be recommended by the district organization; this center should have "the potential to stimulate the economic growth of the district as a whole," and "sufficient population, resources, public facilities, industry, and commercial services to ensure that its development can become relatively self-sustaining." It should be "geographically and economically so related to the district that its economic growth may reasonably be expected to contribute significantly to the alleviation of distress in the Redevelopment Areas of the District."[1]

The size of the center cannot be over 250,000, and it should generally be greater than 10,000. Operationally, it is usually the largest city in the district which is chosen; in the two districts studied, the centers are of about 30,000 and 50,000 respectively.

The guidance which the regional hierarchy model may provide to the district-center structure is rather ill defined. Research for the Upper Great Lakes Commission defines at least two classes of city above the potential district centers – metropolitan centers of 177,000 to 3,550,000 (Grand Rapids to Chicago) and wholesale-retail centers of 32,000 to 150,000 (Wausau to Bay City-Saginaw). The "secondary growth centers" which are possible district development centers are generally less than 20,000. In the model, growth is intended to "trickle down" from large centers to smaller, the district centers acting as amenity and commercial centers for multi-county areas. Presumably, the primary means of growth "diffusion" is participation in metropolitan labor markets; this would involve a nest of commuting rings reaching from larger cities to smaller, with a sizable portion of the work force along each ring commuting to the next larger city class. If the model were interpreted literally, infrastructural investment would not be allocated to the district centers, which are only 20,000, but to the cities "close to autonomy," presumably the wholesale - retail centers.

EDA has invested substantially, however, in industrial infrastructure in both District Centers and other towns in the District. This study of two southern development districts finds agreement with this policy, as has been made clear in previous sections of this report. Rather than counsel EDA to limit infrastructural grants and loans to cities larger than District

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[1] SUMMARY OF PURPOSES AND PROCEDURES OF THE ECONOMIC DEVELOPMENT DISTRICT PROGRAM, U.S. Dept. of Commerce, EDA, July 1966.

Centers, we would advise EDA to consider viewing the District as a group of labor markets, the center of each needing considerable funding attention regarding a broad range of services. This sub-division is needed not only because it allows the most relevant delineation of an "economic area," but because it will form the basis for transferring economic growth benefits to residents badly in need. It is, further, an adjunct to a mechanism which does not function as supposed.

The concept of a district center "diffusing" growth into surrounding towns does not correspond to reality in the districts studied, outside of a rather narrow commuting radius from the city. (As discussed in Section I, commuters come from as far as forty or so miles away; but the vast majority of commuters fall within a radius which probably does not extend half that far.) The greatest radius of influence is for retail services. Other than with reference to a labor market, other significant growth diffusion processes do not seem to be operating between district center and other towns. The other possible means of diffusion would be purchase of raw materials by centers from towns, sale of factors of production in either direction, or sale of products manufactured in the smaller towns to the centers. These relationships did not exist to any great degree. As discussed in Section I, increased quality in road transport has led to industry locating in the smaller towns which imports factor inputs other than labor from hundreds of miles away, and exports the product from the region. There is little trade, therefore, between industrial units located in the District Center and in surrounding towns.

Necessary Steps Toward the Development of Labor Market Areas

The thought developed so far is that EDA's development district is most defensible against *urban center efficiency* arguments if the district is designed as a group of well-defined labor markets, each controlled by a center. Several tasks lie ahead in the implementation of this concept:

1. The relationship of *accessibility* to employment and to other welfare variables needs to be more clearly defined. This will require both general research by EDA in several representative areas, and increased practical research and analysis by district planning staffs in their own districts.
2. Much more complete information on the labor force, actual and potential, is necessary. The first part of Section II, above, outlines the categories within which data must be obtained, in order to rationally plan the development of an area around its labor market *potential*.

Accessibility to Jobs and Services

There are numerous problems to be solved in implementing a labor-market-based development strategy. There is almost no information now on the relationship in rural areas of *accessibility* to: 1) employment status (e.g., underemployment; nonparticipation; range of job opportunities, wages and upgrading), 2) public service consumption (e.g., trips to health clinics; participation in educational or job training programs, welfare registration; Food Stamp purchases), 3) private consumption (e.g., range of shopping opportunities - effective cost of living; recreational trips), 4) mobility (e.g., commuting dynamics - first commuting, then migration; propensity for intra - versus inter - regional migration), or 5) integration into the community (e.g., participation in organizations; degree of "alienation;" possession of "information" on jobs, services, and community affairs).

Since the growth center strategy focuses specifically on the utilization of certain growth poles by their hinterlands, it is perplexing that no one has investigated the extent to which such utilization is influenced by the accessibility conditions of the population in hinterlands.[1] Large cities might well be the recipients of much migration from the hinterlands which occurs precisely because accessibility is so deficient that the hinterlands population cannot exploit the job, trading, and service opportunities at smaller cities which are closer. Once a rural resident recognizes that he has to migrate if he is to enjoy the standard of living he wants, the choice becomes tilted in the direction of the larger city, which clearly offers greater diversity and intensity of opportunity. But the resident's preferred choice might well be to trade off such opportunities for the sake of maintaining ties to family and a familiar environment. Smaller cities which are 50-100 miles away might meet such preferences. But roads may be bad or cars can't be afforded. Commuting is therefore expensive or unfeasible. Housing is in short supply in the smaller cities, in large part because of capital market imperfections which the larger city is spared. Retail and service sectors have not developed, precisely because low accessibility has reduced the size of the potential customer market below the threshold required by merchants for profitable, less risky operations. Job opportunities are not as generous as in the larger cities because firms considering location may have been discouraged by the size of the labor market *accessible* to prospective plant sites. Confronting these factors, the resident rationally chooses to migrate to the larger city if he chooses to migrate at all. The fact that the smaller cities receive the number of migrants that they do is a testimonial in part to the desire of rural migrants to maintain ties with their home areas of origin even at significant cost in job and consumption opportunities.

It must be stressed that the area transportation system is not synonymous with accessibility. Accessibility requires not only good roads, but the availability of cars, transit, and the money to operate them. The latter concerns are paramount in the question of accessibility and its impact on jobs, consumption, and mobility. Unfortunately, research is lacking on the question of transport availability in rural areas. The question indeed has come to the fore in urban ghetto areas only recently, even though "travel behavior" in large cities has been explored time and again with expensive, sample household studies.

Improved Labor Market Information

Section II and the journey-to-work discussion in Section I have adequately spelled out the problems with labor information presently available. The most encouraging effort to date to remedy this situation has been the Smaller Communities Program at the U.S. Department of Labor.

However, an approach much more satisfactory than this project in which a mobile unit spends a short period in the town, would be a continuing effort by an on-the-spot planning staff possessing the necessary techniques. The cooperation of the State Employment Service, and of the U.S. Department of Labor, is essential. Further suggestions are given in the next section.

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[1] Awareness of the seriousness of the transportation to work problem for the unemployed is increasing. "Experience shows that transportation problems are by far the prime cause of tardiness or absenteeism among the hard-core unemployed." (National Alliance of Businessmen, Region II office: GUIDELINES FOR INTRODUCING THE HARD CORE UNEMPLOYED TO A PRODUCTIVE JOB, published by the Prudential Insurance Company, August, 1968.

ECONOMIC DEVELOPMENT DISTRICTS IN PRACTICE -- PROBLEMS

Interviews were conducted with Development District representatives in the two districts studied. Problems apparent with the district structure and concept as viewed at the time appeared to be the following:

1. There seemed to be little if any planning going on at the district level of a nature that involved choices between resource allocation to one town or area and another. There did not appear to be an awareness that choices are the critical elements of a planning process.

2. The district organizations act as collection points for suggestions by district citizens and institutions. Once project ideas are stimulated, it is very difficult to make economically rational choices among projects, or to view these projects as part of any overall district plan.

3. While those staffing District offices now have a reasonably clear picture of the location and magnitude of problems, in terms of income differential or unemployment, it is less clear that district staffs now have the training and information necessary in order to properly visualize the details of the problems and their solutions.

4. There is generally an extreme shortage of data and information at the district level which would permit current evaluations of progress in the district.

5. There is a primary emphasis on industrial development as a solution to district problems. A realization may exist that solutions must be broader than this, but few plans for implementing broad-based plans seemed to exist.

6. District staff, because they are purposely drawn from knowledgeable local residents, are subject to the same types of non-objectivity with respect to social problems and solutions that most local residents are subject to. The planning goals section of the OEDP is often written by an economist local to the district and subject to the same non-objectivity.

THE OEDP

The Over-all Economic Development Program (OEDP) is a requirement imposed by EDA in order for a district to become "designated." The general goal of this effort is to lead local area residents to contribute to a plan for their own area's growth. An examination of a number of these documents leads to the following observations:

1. The OEDP represents a useful cataloguing of economic and social statistics which provide a general description of the county or district.
2. The OEDP does not discuss economic relationships between sectors or cities, even in the briefest form.
3. The OEDP does not relate any of the social problems discussed in it to alternative solutions and methods for selection of the most effective solution.

In short, the document lists problems but does not consider the scarcity of resources, and therefore does not attempt to outline ways in which resources should be allocated to solve problems; seldom are priorities mentioned. In no discernible way then, is the OEDP a plan or a program.

The document serves the first step only in economic planning-getting some local institutions and people involved. If EDA is to bridge the gap between research which has already and should in the future be performed, and resource allocation between and within districts, a significantly greater planning effort must come from the districts. High priority needs are: an investigation of inter-city economic relationships, particularly commuting and trading; growth rates in major employment categories and in industry classifications, historic and projected; migration information obtained from selected samples in urban and rural areas; and particularly labor market potential, covering the items in Section II. This can only mean more funds allocated to *local* research and planning, which should go into activities on one or more of three levels: more staff positions in the district organization, to include one fully qualified economist; more staff positions on the regional level, so that field assistance could be provided to the districts; and/or consultants hired to assist in the above research and planning activities. EDA should require an explicit statement of major district goals, alternative programs, and an economic analysis of these programs regarding their relative ability to attain the goals.

Recommendations for program revision and emphasis are given in the next section (VI).

SECTION VI

PROGRAM AND POLICY RECOMMENDATIONS

p. 139 blank

VI. INTRODUCTION

EDA today appears to the outside observer to face an identity crisis. An uncertainty about goals results from three major facets of its operations: first, a focus on unemployment, low income, and out-migration as criteria qualifying distressed areas for assistance; second, a basic commitment to industrialization as the prime vehicle for economic development; third, a propensity to allocate the largest portion of its funds to public works grants and loans. There is nothing inconsistent about these three elements, but the second and third do not inevitably lead to a solution to the problems stressed by the first. Although recent location motivation surveys have not revealed that public works are major industrial location incentives, it is known that they are important "facilitating" services, and therefore are very important in allowing an area to industrialize. The important policy point, however, is that the attraction of industry does not necessarily result in an end to high unemployment rates or to regional depopulation.

In the preceding section, we have recommended that EDA adopt a broad goal which will further and explicitly define "economic development" to include the equitable treatment of disadvantaged population segments. We have also concluded that this can be done most *effectively* by assisting *qualified* small towns and smaller cities as well as larger cities. Concentration on larger cities alone is inadequate because the mechanism for diffusion of growth benefits does not operate satisfactorily, and because an outmigration policy is not expected to provide timely and reasonable solutions to urgent poverty problems presently existing in rural areas.

The Development District concept has been judged, according to results from the field studies, to be a generally appropriate planning framework for rural areas. However, the use of the District Center, and the observed type of planning activity in District offices, need considerable attention.

Specific recommendations to EDA follow.

EDA POLICY EMPHASIS

1. EDA should make an explicit policy statement, and broaden its program concerns accordingly, in the direction of solving the hard-core unemployment problem. It is in a unique position to assume this role, since it is empowered to provide public works infrastructure, as well as training grants, to firms which can benefit from new small town sites. EDA is perhaps in a better position than any other federal agency (with the possible exception of the Department of Labor) to act as a planner for industrial location and as an advisor on industrial policy regarding employment. Excellent relations exist between state industrial development boards and EDA field coordinators. EDA, therefore, can exercise leverage through its grant and loan programs, and has a developed institutional network with which to act as an interface between industry and the unemployed.
2. Rather than spread its resources thin by providing aid to all small towns and cities which qualify under EDA's statutory definition, as EDA continued to do even under its new District organization, EDA should concentrate investment on those urban points which hold promise as growth centers. It has been shown in Section I that growth centers that will accomplish federal goals need not be restricted to larger cities of population size 250,000 and above. Some smaller towns and cities of size 10,000 to 50,000 can effectively function toward larger hinterland areas as growth centers radiating employment, trading, and public

service benefits and acting as the focus of migration and continuing political and social as well as economic development. The concept of growth or "target" center as used here, then, goes beyond the District Development Center concept, in that it includes both the Development Center and other selected smaller cities. The efficiency of these smaller towns and cities as economic development loci may not be appreciably less than the efficiency of larger cities. The advocates of *exclusively* utilizing larger cities as growth centers have exaggerated the economic benefits and minimized the political difficulties and the unnecessary costs in social disruption.

In awarding assistance to smaller towns and cities having potential as "growth centers" EDA should include in its award criteria the concepts covered below, under *Field Level Organization.*

EDA RESEARCH

The Office of Economic Research, EDA should concentrate research funds on several areas deemed important by this study:

1. Research funds should be allocated to better labor market description methods. This would involve the design of more comprehensive and more extensively administered survey instruments, and conducting pilot tests of these instruments. Information obtained in such surveys must include location (and commuting capability), job history, and employability needs, such as health problems, etc. An attempt must be made to quantify both underemployment and labor market potential represented by people not now in the labor force. This research effort would appropriately be carried out jointly with the Department of Labor, and involve the cooperation and assistance of the State Employment Security Offices and EDA field personnel.
2. Job accessibility, based on the availability of private or public transportation per worker (*not per family*) and time incurred in journey to work (which measures road quality, system design, and distance) should be studied. This can be done in conjunction with research task No. 1. There were strong indications in our field study that transportation was a critical factor in both the poor labor market utilization of the hinterland population, and in the failure of hinterland population to exploit the consumer opportunities of small town/city trading centers and the reciprocal inability of those trading centers to offer higher quality and more diverse retail and service opportunities (see Section III). It is important that EDA Economic Research activities be closely coordinated with the Development District analytic activities, since it is (below) recommended that district-specific research be conducted in the field on labor market definition and accessibility problems.
3. EDA should assume a role in developing wage subsidy programs for rural areas. This would involve cooperation with, and preliminary research on, present wage subsidy programs in existence at the Department of Labor. What is envisioned is a federally administered program with Regional and State involvement. It is seen necessary because present industrial location incentive programs are wasteful and ineffective, and because more effective means are needed to induce industry locating in rural areas to employ the more disadvantaged elements in the population. The administration of this program is discussed below under field cooperation with states.
4. EDA should investigate the capital market constraints on the development of smaller towns and cities. Local banking practices and investment patterns should be researched. It may be that business loans or better education of bankers could have a significant impact in expanding the capacity of small towns as retail and service centers and as foci for migration by facilitating housing development.

5. While research on producing better labor market information will enable EDA to better delineate natural development areas, to identify target centers for investment, and to improve the employability of the disadvantaged, research conducted in selected areas on migration trends will provide EDA with a more instructive view of the value of various private and public activities. EDA and other federal agencies are badly in need of recent migration data which will reveal the characteristics and motivations of people entering and leaving rural areas.

ALLOCATION OF EDA FUNDS TO MAJOR PROGRAM ELEMENTS

It is suggested that EDA guide its program emphasis decisions regarding amounts to be allocated to public works, technical assistance, and business loan programs, according to advice on district and area priorities given by field coordinators, district directors, and whatever additional ~~planning~~ staff they are to receive. Needs are area and district-specific, and methods of setting priorities are covered below. Generally, however, it is assumed that public works programs, as a proportion of total program funds, would decline in importance, with technical assistance assuming a much greater role.

To emphasize one program recommendation expanded upon below, it is essential to the development of rural areas to obtain a much greater commitment of funds for leadership development and training. The lack of ability in some areas to complete applications for federal assistance, to realistically identify problems and consider solutions, and to organize community action toward implementing solutions, make this need dramatically apparent and critical.

FIELD LEVEL ORGANIZATION AND ACTIVITIES

In Section III, service provision problems were discussed, using the concepts of, first, a "target neighborhood" and second, a "delivery system" used to provide services to clients within the neighborhood. *For EDA's purposes, this study views EDA's "target neighborhood" as a cohesive and definable labor market surrounding a city; the cities will include both the District Center and other, smaller towns, so that a District will contain more than one such market and center.* The "delivery system" to date has consisted of the field coordinator in an administrative role, area and District personnel in a problem-identification and coordination role, the city government as a recipient of the public works service, which is in turn "provided" to the firm or to population groups, and the firm itself, which receives loans or technical assistance and is supposed to issue a service, in turn, to the population.

Problems have been cited throughout this report regarding the ultimate delivery of a "service" to the population which needs it. The following suggestions relate to the development of field-level personnel, from the state to the town level, who can identify problems, request funds, and evaluate results, acting to coordinate the efforts of state, town, firm, other federal agencies, and community groups.

(Recommendations are made on the basis of needs observed and analyzed; if mechanisms are suggested here which, in EDA's opinion, are already implemented, this is an indication of a gap between intentions and accomplishments.)

1. EDA, through field representatives who will probably remain the Field Coordinator and District Director, should coordinate closely with firms considering location or expansion in the area. This is already done to some extent, but the level of coordination to date has generally not accomplished the goal recommended by this study: the involvement of the firm in the town's employment problem.

It would be unwise to attempt to impose requirements on the hiring policy of the new firm, since this could cause the new firm to locate elsewhere. However, the field studies showed several instances where local government advised the new firm on hiring policy, to the benefit of unemployed blacks. Since acquiring a labor force is a primary concern of management, it is possible to offer, in a nonthreatening way, information on labor market potential, which should include information on skills possessed, and training required, by different segments of the labor force. The local EDA representative should foster discussion, at the earliest date possible, between local government and firm management, which should include a frank discussion of the area's employment problems.

Actually, if the field studies and other research on the subject are representative, it is the earlier-locating firms, making expansion decisions, which offer the best opportunity for the unemployed. This is so, it is believed, because the following process generally takes place: when a new firm locates, part of its labor force is obtained from other firms in the vicinity. This is true particularly when, in a high-growth city, the last firm to locate may have the most advanced technology and offer the highest wages. Therefore, the older firms must fill the slots vacated, and find it necessary to lower hiring requirements. At this point in the firm's decision-making process, it is critically important that some institution influence the firm to adopt a policy to hire and train the unemployed. As shown in Section II, the town and local employment service office too often do not perform this function. The local EDA representative, as one involved in the area's economic planning, can play an influential role in this process. The forum within which this dialogue takes place can depend on local circumstances. A local club or social organization could in some instances be as helpful as a formally organized planning committee.

EDA assistance should be used selectively to further both the goals of town growth and employing the hard-core. It is thus unlikely that a public works grant, for instance, could be withheld until commitments were received from industry, because this could result in no employment opportunities being available at all. It would make sense, however, for EDA to require that local government and industry officials contribute jointly to a "plan" accompanying the application for that grant, showing that they recognize the need for upgrading the employability of the hard-core, perhaps with a request for an accompanying technical assistance grant. The local EDA representative should act to make local officials aware of available assistance programs other than those for public works, such as wage subsidy programs.

2. The field staff, District or otherwise, should have at its disposal research funds with which to: analyze the labor market structure of the district or area and to select "target centers" and work closely with local government, community groups, and other federal agencies to improve employability and living conditions. (See target center criteria below.)

3. Staff positions should be established in small towns and subsidized by EDA grants, for planners, who would work closely with District personnel. These could conceivably be interagency, rather than strictly EDA positions. Such staff would in fact emerge as "advocates" of development within the informal policy-making process of such county and city governments. They would also provide the critical skills necessary to analyze problems,

direct comprehensive planning efforts, prepare funding applications, and develop sound industrial solicitation. Continuing training programs or "professional meetings" for such staff-workshops, seminars, etc., should be conducted on the regional level to upgrade their skills, keep them abreast of newly developed planning methods and concepts, raise their prestige within their home community and thus their de facto political resources, boost their morale, increase their understanding and ability to be effective in rural or small town policy-making processes, and simply to share ideas and experiences. The planners with the comprehensive skills needed are not in large supply.

EDA might consider the establishment of an academy for such community planners, on a regional or national basis (a "West Point" of community planning). Such an academy might accept nominees from rural areas and small towns who met testing standards, put them through a 4 or 5 year work/study program, and send them back to their home areas with subsidized pay, prestige, and a committment to "serve" for 3 or 4 years. The program might include multidisciplinary professional training which would prepare the individual for both physical and social planning. The program might include a year as well as several summers working as a planner in the home area. Such experience would not only be educational, but would increase the acceptance and credibility of the planner in the eyes of the home community and power structure. The program could also expose the student planner to a wide range of environment—big city, small town, rural, etc., for his education. The emphasis should generally be on strengthening ties to the nominating community, however. Perhaps the students could do 75% of their training at local state institutions and 25% at some specially organized program in a prestigious big city university. Such a strategy would help develop local colleges and increase their involvement in community and regional development.

4. EDA should also offer training to other actors in rural communities and smaller towns who, while not on public payrolls, would easily assume major planning and leadership roles in the community. Workshops in local development could stimulate both commitment and knowledge for bankers, managers of utilities, firm managers, newspaper editors, mayors, etc. Our field experience leads us to believe that there would be widespread interest by such groups in workshops, if they were inexpensive, short in duration, well done, and prestigious. Workshops that would take the participant out of the area for a few days and thereby involve some costs to the individual and his sponsor are most likely to generate the prestige necessary to attract interest and increase respect (and thus effectiveness) for the participant when he returns to the community. Perhaps EDA could then run a local workshop, using the graduates of the workshop as directors and teachers.

The proposed programs 3) and 4) are ones which promote the diffusion of growth by political and institutional means. They are based on an explicit recognition that small town growth can be stunted, as shown in the last pages in Section I, by the lack of concensus on the form which progress is to take.

5. In order to obtain the involvement of District Directors and staffs in these activities, it would appear that three types of action are required on the part of the Office of Development Districts: the provision of additional staff positions and research funds to the Districts; the continuous training of directors and staffs in research and community planning; and the requirement that grant and loan applications be adequately documented regarding the impact of a project on the hard-core.

INTER-AGENCY COOPERATION AT THE LOCAL LEVEL

An important current area of discussion regarding federal program revisions concerns how federal agency delivery systems should be coordinated, and at what level. A number of comprehensive programs have been in operation for some time, including the Community Action Program, the Concentrated Employment Program, and the Pilot Neighborhood Service Center Program. The premise of these programs, as discussed in Section V, has been that a disadvantaged client with multiple needs may not be helped significantly if only one of those needs is met. The example was given of a client with both health and skill-training needs who will not be able to hold a job if he does not receive assistance for both needs. A single-point delivery system (either in record-keeping or location terms) will raise the likelihood of all client needs being served.

The "delivery" of EDA services is seen in a different light since they extend benefits to the population through infrastructural and institutional forms-water and sewer facilities, industrial parks, business loans, and other forms. As this study has concluded, however, this characteristic makes it no less important for EDA "clients," e.g., the unemployed, to have access to all other services to render them more employable. This is important enough that EDA should do its utmost to ensure that all service needs are identified and provided by other state and federal agencies in locations receiving EDA assistance. If this is not done, there will be a significantly lower probability of success for the EDA programs alone.

What is suggested, therefore, is that the local EDA representative, ideally the District Director, become involved with other federal and state agencies planning for the area. The institutional framework within which this can be done will depend on what is available in a given location. If a "comprehensive" program, such as a Community Action Program, is available, it would seem reasonable to enter into a cooperative planning arrangement with the CAP; if a HUD planning organization exists, here is another opportunity. A most important point to note is that often, an EDA representative will be more acceptable to local government in small southern towns than will a representative of OEO and possibly more so than representatives of other federal agencies. This allows EDA to assume a coordinating role for filling community needs which may not be given to other agencies.

An example of an excellent inter-agency project can be given. A large indigenous food processing firm in the Mississippi Delta has recently received an EDA business loan and a technical assistance grant for the training of workers; the Mississippi Concentrated Employment Program, operating on DOL and OEO funds, is providing the training methodology; and the local OEO CAP is providing day-care and other facilitative social services. Thus, most of the bottlenecks to employment are eliminated simultaneously.

INTER-AGENCY COOPERATION AT THE STATE AND COUNTY LEVEL

It is of the utmost importance that EDA and other federal agencies coordinate closely with state and county officials in industry solicitation and social programs. An example of particularly close cooperation exists in South Carolina, where the EDA Field Representative, the State Development Board, and the State Technical Training Institute discuss development plans on a regular basis. It is less clear that the State Employment Service is involved in this dialogue as much as it should be. Thus, the needs of the less employable could be more explicitly considered than they are presently, if a more completely coordinated attack existed.

The South Carolina picture of cooperation stands in contrast to more fragmented efforts in other states. Development agencies in Mississippi, including the Mississippi Employment Security Commission, are making serious efforts to improve this picture in that state.

The need for this coordination in strategy has been made clear in the preceding pages. The returns to federal investment in rural areas can be influenced greatly by the activities of state and county officials, who may act either independently or in concert with federal efforts.

SELECTION CRITERIA FOR LABOR MARKET CENTERS

EDA, it has been suggested, should allocate its resources so that industrial firms which receive, directly or indirectly, assistance from it, are able and willing to employ the population in rural areas. Grants and loans would be focused, within Districts, on certain centers of already developed or developing labor markets. These centers will include the District Development center but may also include towns considerably smaller. Criteria should include these:

1. The length of an average and of a maximum commuting radius from the town as an employment center. The longer the radius, the more important the town is likely to be to a broad hinterland.
2. The success of a town to date in attracting employment sources. This will tend to subsume such criteria as resource availability and other, less obvious, inducements to industrial location; what is concentrated on, then, is historic success in attracting industry, which will be an indication of future probable attractiveness of the town to further industrial location and expansion. A measurement of this in the smaller towns can be the percentage of town population in industrial employment. Note that *industrial* employment alone is concentrated upon here, because in the smaller towns, manufacturing has been much more important in its employment effects than has the service sector. This will be less true, the larger the city.
3. The commitment of town officials to both industrial growth and to solving un- and under-employment problems should be strong. This is necessary because the town government is in a position to help or impede the improvement of the living conditions of the disadvantaged, with public services of all types. Also, it is important that a common front be presented to the locating firm by the state, town, and by federal agencies. If separate deals can be made with the town, the firm may not cooperate with EDA and other federal agencies in attempting to realize employment goals.
4. In addition to employment centers already developed, another likely opportunity for investment may be considered. Some small towns in rural areas have already attracted much federal assistance in the form of Concentrated Employment Programs and Community Action Programs, but still lack employment sources. Thus, the employability of many of the disadvantaged population is being increased, but the placement problem is critical. The potential pay-off to an EDA investment which would attract an employer is extremely high. A simple information interchange between EDA and DOL would show the potential for this activity.

In summary, an examination of manufacturing firms located in the Development District will show a few cities which are the largest employment centers in the district. These may (and probably will) be cities of quite different sizes, the larger being service as well as manufacturing centers, and the smaller being mainly manufacturing centers. In the initial examination, no sizable segment of rural population should be left without a preliminary-designated center within 30 miles. (A further study of accessibility problems existing will allow final definition of this distance between hinterland and center.) Thus, a larger city may have a population of 50,000 and a labor force (city plus hinterland) of 25,000; 50 miles away may exist a sizable rural population (several towns of 1000 to 3000) who are within 30 miles commuting radius from a town of 7,000 with an effective labor force much smaller than that in the larger center. Unless reasons exist for choosing to radically improve transportation between rural areas and the larger center, the smaller town should qualify for attention as a growth center on employment potential grounds.

Next, the planner should superimpose on this "employment map" a map showing existing federal and state programs of a labor-developing nature, and also a crude "map" of political commitment to progress. The latter criterion is likely, as a means of selection, to be significant only when two towns exist which are equally promising in other ways. In most cases, if a town has shown employment potential, a lack of commitment to progress in federal terms will merely indicate a higher need for technical assistance and planning grants than for public works assistance.

The resulting city selections should then form the basis for district development strategy, which should spell out how pockets of unemployment are to be treated under coordinated local-county-state-federal-private assistance programs.

APPENDIX I

The Appendix provides data and analysis which support Section I of this report.

TABLES AI-1 through AI-6: Employment Summaries for Cities and Counties A 1 - 6

THE CHANGING INDUSTRIAL BASE OF RURAL AREAS

Discussion A 7 - 8
Tables AI-7 through AI-10: Characteristics of Firms Interviewed A 9 - 10

PLANT MANAGEMENT QUESTIONNAIRE A 11 - 24

THE FIRMS' ATTITUDES TOWARD TRAINING A 25 - 26

RECRUITMENT PRACTICES OBSERVED A 27 - 30

Table AI-1

AREA EMPLOYMENT BY INDUSTRY

S. C. Town County

	EMPLOYMENT - MARCH			
	1960	1965	1966	1967
All Non-Agricultural Industries	6790	8720	9710	8240
Manufacturing	2180	3080	3560	3210
Food & Kindred	–	50	50	60
Textiles	830	1250	1500	1340
Lumber & Wood Products	460	470	490	460
Furniture & Fixtures	–	–	–	–
Printing & Publishing	–	–	–	–
Chemicals & Allied	–	–	–	–
Stone, Clay & Glass	–	–	–	–
Fabricated Metals	–	–	–	–
Machinery, except Electric	–	–	–	–
Transportation Equipment	–	–	–	–
Other Manufacturing	890	1310	1520	1350
Non-Manufacturing	4610	5640	6150	5030
Mining	–	–	–	–
Contract Construction	110	300	320	200
Transportation, Communication & Public Utilities	160	370	350	290
Wholesale & Retail Trade	1000	1080	1140	1010
Finance, Insurance & Real Estate	110	130	140	100
Service, except Private Household	–	–	–	–
Government	1060	990	1360	1190
Other Non-Manufacturing	2170	2770	2840	2240
Agricultural	3090	1850	2030	1760

Source: South Carolina Employment Security Commission employment summary, by county, for March, 1960, 1965, 1966, 1967.

Table AI-2

AREA EMPLOYMENT BY INDUSTRY

S. C. City County

	EMPLOYMENT - MARCH			
	1960	1965	1966	1967
All Non-Agricultural Industries	22050	28210	30570	30630
Manufacturing	3960	7150	8270	8720
Food & Kindred	670	570	600	640
Textiles	1830	1960	2040	2010
Lumber & Wood Products	1020	1020	1030	990
Furniture & Fixtures	–	–	–	–
Printing & Publishing	–	–	–	–
Chemicals & Allied	20	–	–	–
Stone, Clay & Glass	80	100	110	140
Fabricated Metals	60	440	–	580
Machinery, except Electric	–	–	–	–
Transportation Equipment	–	–	–	–
Other Manufacturing	280	3060	4490	4360
Non-Manufacturing	18090	21060	22300	21910
Mining	–	–	–	–
Contract Construction	1940	1430	1900	2190
Transportation, Communication & Public Utilities	1450	1890	1890	1860
Wholesale & Retail Trade	4280	5190	5620	5630
Finance, Insurance & Real Estate	900	1160	1160	1340
Service, except Private Household	–	–	–	–
Government	2230	2350	2490	2560
Other Non-Manufacturing	7290	9040	9240	8330
Agricultural	6420	3910	4210	3170

Source: South Carolina Employment Security Commission employment Summary, by county, for March, 1960, 1965, 1966, 1967.

Table AI-3

AREA EMPLOYMENT BY INDUSTRY

Miss. Town County

	EMPLOYMENT - JANUARY				
	1961	1962	1963	1964	1965
All Non-Agricultural Industries	7202	8130	8537	8616	9190
Manufacturing	987	1072	1215	1232	1482
Food & Kindred	119	124	104	108	106
Lumber & Wood Products	44	32	39	33	58
Printing & Publishing	16	15	15	17	17
Chemicals & Related	417	470	479	538	574
Stone, Clay & Glass	136	181	265	210	247
Fabricated Metals	19	6	11		163
Machinery, except electric	20	14	10	13	15
Other Manufacturing	216	230	292	313	302
Non-Manufacturing	6215	7058	7322	7384	7708
Mining	11	9	12	10	10
Construction Contract	190	93	170	125	193
Transportation, Communication & Public Utilities	400	373	361	403	394
Wholesale & Retail Trade	1442	1381	1440	1496	1586
Finance, Insurance, Real Estate	125	163	167	185	217
Service, except Private Household	530	655	654	625	662
Government	1317	1373	1438	1440	1516
Other Non-Manufacturing	2200	3011	3080	3100	3130
Agricultural	9243	7353	6630	6500	6350

Source: Mississippi Employment Security Commission, employment summary, by county, for January, 1961, 1962, 1963, 1964, 1965

Table AI-4

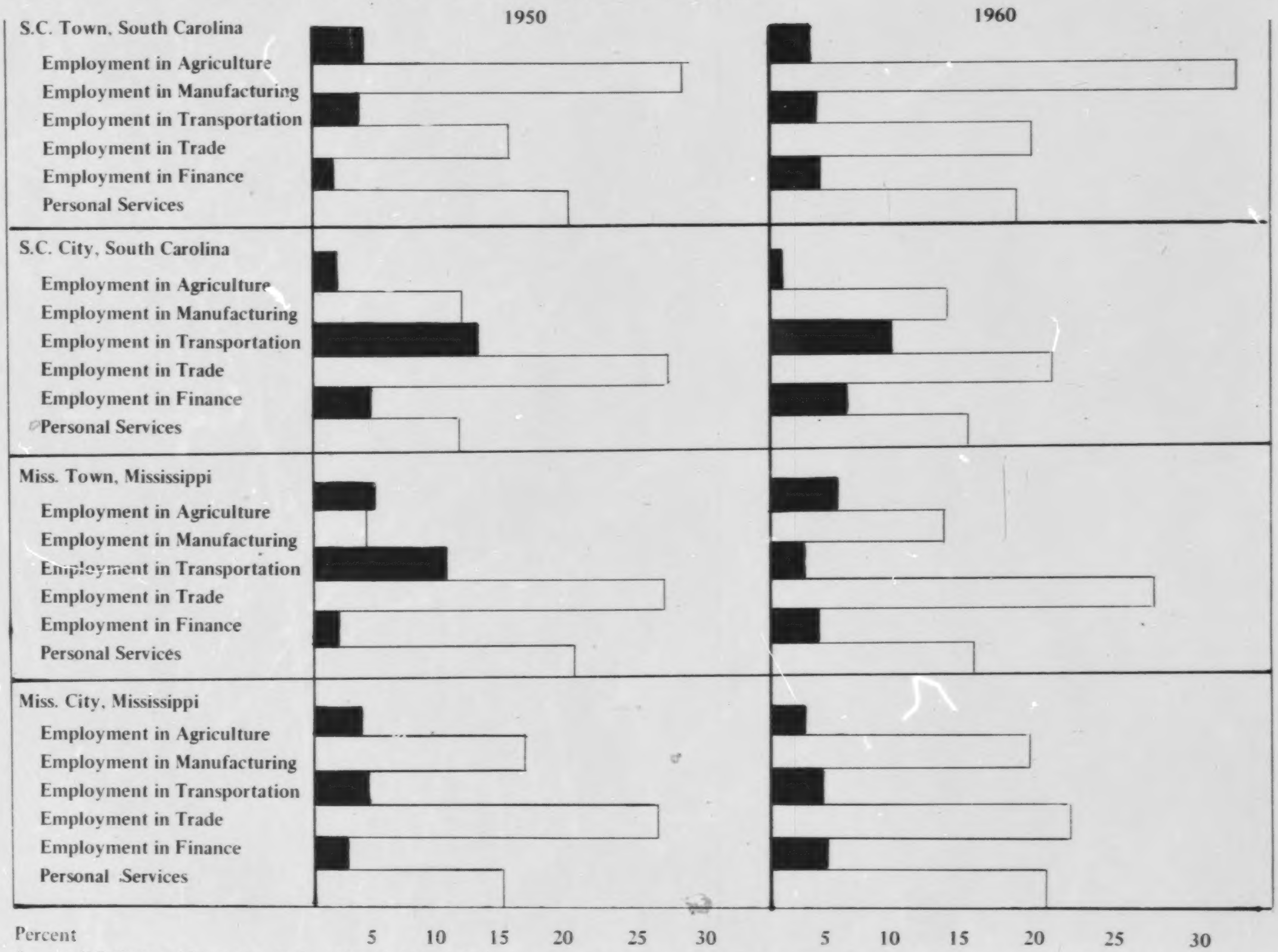
AREA EMPLOYMENT BY INDUSTRY

Miss. City County

	EMPLOYMENT - JANUARY				
	1961	1962	1963	1964	1965
All Non-Agricultural Industries	18414	19677	20440	20877	20979
Manufacturing	3592	4112	4324	4210	4395
Food & Kindred	876	830	838	710	675
Textiles	1046	1050	1037	1021	970
Lumber & Wood Products	473	471	505	970	994
Furniture & Fixtures	7	18	86	104	103
Printing & Publishing	87	93	84	88	87
Chemicals & Allied	43	32	50	55	65
Stone, Clay & Glass	77	85	78	63	61
Fabricated Metals	455	995	1020	1002	1254
Machinery, except Electric	15	13	14	3	3
Transportation Equipment	61	88	142	149	130
Other Manufacturing	452	437	470	45	53
Non-Manufacturing	14822	15565	16116	16667	16584
Mining	42	65	50	26	43
Contract Construction	676	652	791	699	810
Transportation, Communication & Public Utilities	1378	1433	1386	1482	1603
Wholesale & Retail Trade	3335	3334	3440	3564	3602
Finance, Insurance & Real Estate	529	627	647	661	683
Service, except Private Household	1670	1783	1882	2062	1799
Government	2692	2763	2890	3143	2984
Other Non-Manufacturing	4500	4908	5030	5030	5060
Agricultural	3982	4447	4280	4200	4000

Source: Mississippi Employment Security Commission, employment summary, by county, for January, 1961, 1962, 1963, 1964, 1965

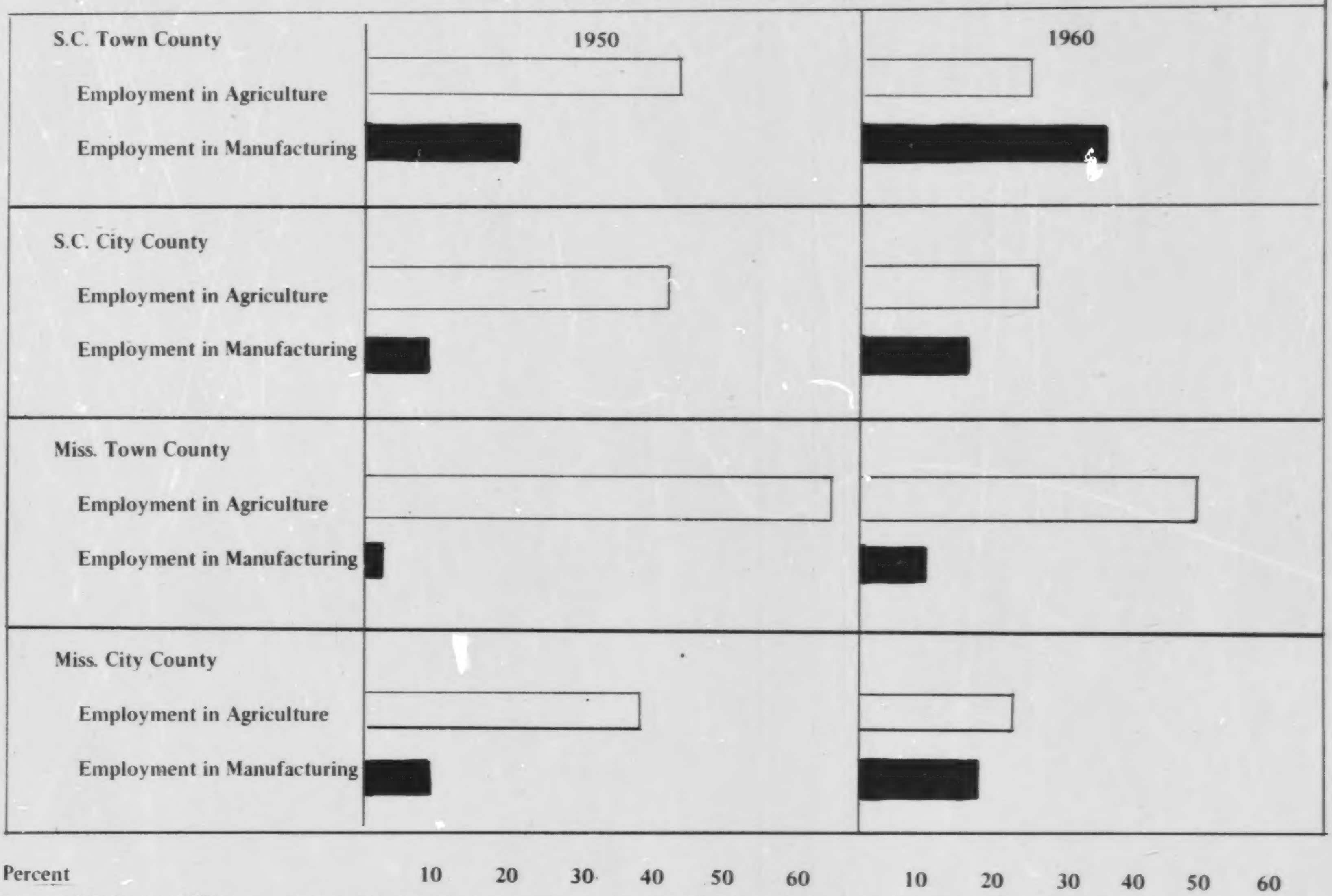
Table AI-5: Employment Summary (Employment Distribution by % of Labor Groups)



Source: U.S. Census of Population, 1950 - 1960, Mississippi - South Carolina, General Social and Economic Characteristics; U.S. Department of Commerce

Table AI-6: Employment Summary for Counties Containing the Cities

(% Distribution in Agriculture and Manufacturing)



Source: U.S. Census of Population, 1950 - 1960, Mississippi - South Carolina, General Social and Economic Characteristics; U.S. Department of Commerce

The Changing Industrial Base of Rural Areas

This material is presented as an appendix to the discussion found on pages 4-14. The tables in that section show characteristics of industries found in the four locations. The following tables show the same characteristics for only those firms interviewed, which comprise about 80% of industrial employment in the locations.

Edward K. Smith of Boston College has published a study[1] of the industrial composition in 1958 of 105 depressed rural counties classified 5(b)2 by ARA in the four states of Alabama, Georgia, Mississippi, and South Carolina, and of the SMSA's in that four state area. Smith found that industries in those areas are more capital intensive than commonly thought. Smith relied heavily upon an ARA study which classified some 417 4-digit SIC manufacturing industries in terms of their capital intensity, labor-intensity, and short run and long run growth trends.[2] He drew from the ARA list some 110 industries which fit the extremes: high capital and low labor intensities or low capital and high labor intensities.[3] These extreme groups were called respectively, the "capital-intensive group" and the "labor-intensive group." The depressed rural counties had 41% of the possible capital intensive group industries and only 25% of the labor-intensive group industries. The industries usually found in the depressed counties in 1958 reflected the local resources available: flour and meal mills, preparation of animal feeds, wood-using industries, chemicals and allied products, etc. By contrast, the SMSA's of those four states had a greater share, 62% and 64% respectively, of both the capital-and-labor-intensive groups, reflecting the greater diversification of industry within the larger urban areas. Indeed the proportion of labor intensive industries to the total found of the specified 110 extreme industries was higher in the SMSA's than in rural areas, 41% versus 29%! Of the 110 possible industries, 73 were found somewhere in the SMSA's and rural areas. Of the 35 industries found in the SMSA's which were not found in the rural areas, half were labor intensive. There were 192 plants in 38 extreme industries in the rural counties. Labor intensive industries accounted for only 16% of these plants; the rest were capital intensive. Thus, *capital intensive industries were dominant in the rural areas, quite in contrast to some common expectations to the contrary.*

The characteristics of these rural industries were not ideal regarding growth prospects. Only 12 of the 38 extreme industries (representing 26 to 192 plants) exhibited high growth, and only two of those 12 industries were labor-intensive. Most of the 192 plants were small, 87% having fewer than 50 employees and 62% having fewer than 20 employees. Except for pharmaceuticals and wood furniture and switchgear, which had plants with over 250 workers, the labor intensive plants—veneer, furniture, and the wood working industries—were usually small, only two plants having more than 50 employees. The over all picture of industry in "Deep South" rural areas was thus one of quite small plants, even if capital intensive and even if high growth.

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[1] Smith, Edward K., "Effects of Advancing Technology and Capital Intensification in Non-Farm Industry in Depressed Rural Areas," PROBLEMS OF CHRONICALLY DEPRESSED RURAL AREAS, Raleigh N.C.: Agricultural Policies Institute, N.C. State University, November 1965, Series 19

[2] U.S. Department of Commerce, Area Redevelopment Administration, GROWTH AND LABOR FORCE CHARACTERISTICS OF MANUFACTURING INDUSTRIES, Washington, D.C. Government Printing Office, 1964

[3] High capital intensity defined as investments of $7,500 and above per employee, low capital intensity as below $3,500 investment per employee. High labor intensity defined as over 30% labor costs of total costs; low labor intensity as below 20% labor costs.

Industry in the Areas Studied

If one focuses only on the extreme industries surveyed by Smith, the patterns for the four areas investigated in this study are similar to those in most depressed areas. Indeed, the relative situations of the Cities versus the Towns, and also of the Towns versus their County hinterlands, are comparable to the situation of the SMSA's versus the rural counties.[1] Tables AI-7 through AI-10, on the following pages, describe firms interviewed in the four study areas.

This data is consistent with Smith's conclusion regarding the unexpectedly high proportion of capital intensive plants in rural as opposed to more urbanized areas. The ratio of capital intensive to labor intensive plants is roughly 2:1 in each city but 5:1 in each town. Interestingly, more capital-intensive plants are found in the Town hinterlands than in the Towns themselves. The pattern is reversed in the Cities where the ratio of such plants is 4:1. Labor intensive plants are also more numerous in the Cities themselves than in their hinterlands, but by a lesser proportion, 9:3 versus 20:5.

Unfortunately, the data is insufficient to draw any conclusions about relative growth trends, but the sizes of plants can be compared. Most of the labor intensive plants, as in Smith's survey, were small, but the capital-intensive plants while also predominantly small did include several quite large employers. Fifty percent of the labor intensive firms had fewer than 20 employees. Only four of fifteen had more than sixty employees. None had more than 125. Similarly, almost 50% of the capital-intensive plants had fewer than 20 employees, and 31 of 35 had less than 60. But the other four plants employed 300, 512, and 800 workers.

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[1] Forty-nine plants located in the four counties studied fit the Smith categories of extreme capital-intensive (35) or extreme labor-intensive (14).

Twenty of the capital intensive plants were found in the cities with five or more in their hinterlands. Only four capital intensive plants were located in the Towns, with six more in their hinterlands.

Nine labor-intensive plants were found in the cities with three more in their hinterlands. One labor-intensive plant was found in one of the towns, with another in the hinterlands of the other town.

Table AI-7

Percent of Firms Interviewed, and of Employment in Firms Interviewed, (1968) in High, Medium, and Low Investment per Employee Categories, 1962

	S.C. Town	S.C. City	Miss. Town	Miss. City
Percent of Firms Interviewed:				
H	14	29	17	14
M	43	57	83	72
L	43	14	0	14
Total	100	100	100	100
Percent of Employment in Firms:				
H	4	25	48	24
M	87	67	52	62
L	9	8	–	14
Total	100	100	100	100

H: Investment over $7500 employee
M: $3500 - $7500
L: Less than $3500

Source: ARA industrial Characteristics applied to industries of the firms interviewed. Area Redevelopment Administration, U.S. Department of Commerce, Growth and Labor Force Characteristics of Manufacturing Industries, U.S. Government Printing Office, Washington, D.C., 1964

Table AI-8

Percent of Firms Interviewed, and of Employment in Firms Interviewed, (1968) in High, Medium, and Low Labor Intensity Categories, 1962

	S.C. Town	S.C. City	Miss. Town	Miss. City
Percent of Firms Interviewed:				
H	14	29	60	29
M	71	29	20	57
L	15	42	20	14
Total	100	100	100	100
Percent of Employment in Firms:				
H	4	55	18	13
M	91	15	34	64
L	5	30	48	23
Total	100	100	100	100

H: Labor costs are over 30% of total costs
M: Labor costs between 20-30%
L: Labor costs under 20%

Source: ARA industrial characteristics applied to industries of the firms interviewed. Area Redevelopment Administration, U.S. Department of Commerce, Growth and Labor Force Characteristics of Manufacturing Industries, U.S. Government Printing Office, Washington, D.C., 1964

Table AI-9

Percent of Firms Interviewed, and of Employment in Firms Interviewed, (1968) in High, Medium, and Low Average Wage Rate Categories, 1962

	S.C. Town	S.C. City	Miss. Town	Miss. City
Percent of Firms Interviewed:				
H	14	43	40	14
M	--	14	60	71
L	86	43	--	15
Total	100	100	100	100
Percent of Employment in Firms:				
H	14	43	4	2
M	--	8	96	84
L	86	49	--	14
Total	100	100	100	100

H: Over $2.75/hr.
M: $2.00 - $2.75/hr.
L: $2.00/hr.

Source: ARA industrial characteristics applied to industries of the firms interviewed. Area Redevelopment Administration, U.S. Department of Commerce, Growth and Labor Force Characteristics of Manufacturing Industries, U.S. Government Printing Office, Washington, D.C., 1964

Table AI-10

Percent of Firms Interviewed, and of Employment in Firms Interviewed, (1968) in Four Growth Experience Categories, 1947-1962

	S.C. Town	S.C. City	Miss. Town	Miss. City
Percent of Firms Interviewed:				
H	--	29	--	14
M	14	13	60	14
S	71	29	40	57
D	15	29	--	15
Total	100	100	100	100
Percent of Employment in Firms:				
H	--	56	--	23
M	4	17	56	11
S	93	15	44	53
D	3	12	--	13
Total	100	100	100	100

H: 1962/1947 ratio for value added by industry exceeds by over 110% the ratio for all manufacturing
M: ratio = 85 - 110%
S: ratio - 51 - 85%
D: ratio = less than 51%

Source: ARA industrial characteristics applied to industries of the firms interviewed. Area Redevelopment Administration, U.S. Department of Commerce, Growth and Labor Force characteristics of Manufacturing Industries, U.S. Government Printing Office, Washington, D.C., 1964

Plant Manager Questionnaire

The following questionnaire was used in interviewing 26 firms in the four places studied. An effort was made to interview the firms in each city with the largest work force. Firms employing about 80% of the aggregate work force in all areas were interviewed. Those firms with whom it was impossible to schedule interviews in the time allotted were generally the smaller employers.

The interviewer attempted to administer the questionnaire in its entirety, but also used it to elicit other opinions, if new ideas appeared during the interview. Respondents did not usually give information freely on certain sensitive issues, race and wages in particular. Certain other questions, on cost structure and location motivation for instance, were answered with some difficulty because complete information was not at the interviewer's disposal.

In most cases, the plant manager was interviewed, sometimes with the support of the personnel manager. In some cases, we could obtain access to only the latter.

The major focuses of this study dictated the design of the questionnaire; of primary interest were the questions: What industrial characteristics permit a firm to locate in towns and cities of the types studied? What were the primary motivating factors in the decisions of these firms to locate in these locations? What have been the major difficulties encountered by the firm as a result of its location? What influence has government, on various levels, had on management practices? What influence has the operation of the firm had on local government? What are the wage and upgrading characteristics of the jobs in the firm? What are the hiring standards used, and what hiring standards are necessary. Who is employed by the firm, and in what positions, with respect to age, sex race, education, and residence? The answers to these questions were attained by using the questionnaire in an open-ended manner.

Company Name ______________________ Branch of ______________

Address ______________________ One of how many branches _____

HQ Location

Interviewed (name and title) ______________________________

Date firm (branch) entered town ______________

A. Summary of Firm's Operation

1. a. What is produced at this factory?

   b. Is your product:

   - an intermediate good for a product to be sold to consumers?
   - a final consumer product?
   - an intermediate good for product use in manufacturing?
   - a final manufacturing product?

   c. What do your large customers then do with your product?

   d. Where do you receive your inputs from?

2. a. Which of your customers buy most of your output? (name and location)

   b. What percentage of your sales goes to the largest buyer?

   c. If you do not have a primary customer of your product, how would you describe the distribution of your product?

   d. How do you ship your product?

3. What is your competitive position in the market for this product?

   - not significant - many producers of this product
   - not many producers of this product who could sell to firm's distributors
   - specialized product

B. Location Expansion Potential

4. a. What particular characteristics of this area support your firm?

   b. Why would your firm want to locate in this area rather than another?

5. a. Would you make the decision to locate here if it was yours to make?

   b. What industries do you think should locate here?

   c. What industries do you think would not want to locate here?

6. How would the decision to expand this plant be made?

7. Would you be consulted in this decision? (expansion decision)

8. Is your company seeking sales in new markets?

9. If you were in charge of the company's growth, what markets would you concentrate on?

10. What has been the growth of your plant since location? (Employment and Sales)

11. a. What events have encouraged the growth of the firm?

    b. What events will enable it to grow in the future?

12. a. How would *you* describe the major constraints on the expansion of:
    - –supply of primary resources except labor?
    - –supply of high-skilled labor? Describe skills
    - –supply of low-skilled labor?

13. How important are each of these limitations on your firm's expansion potential?

C Relationship Between Firm and Plant Manager and the Community

14. a. If you were the mayor of the town, how would you describe the benefit of having this firm in the community?

    b. If you were the mayor, what kinds of firms would you try to attract? How would you go about doing so?

15. How does this town differ from others in the area?

16. a. What changes have occurred since you first came here?

    b. Of these, what would you attribute to the presence of industry? To the presence of your firm?

17. a. Do you live within the town? If not, how far away?

    b. Have you been appointed to any public offices or committees in clubs, associations, etc. since you have been plant manager? Describe. Who appointed you?

18. Is there an established communications link (formal or informal) between your firm and the town government?

19. What measures have been taken by the community since you located that have assisted plant operations and to what extent have they assisted?

D. Facilities and Services

20. What complaints do you have about facilities and services now missing in town?

21. a. What facilities and services have been provided since you located, in which the community in general may share? (not just industry)
    - –physical (roads, water, sanitation)
    - –services (schools, hospitals, etc.)
    - –social (parks, clubs, etc.)
    - –business (new stores, etc.)
    - –quality of housing

    b. Has your firm been influential in inducing these changes? How?

22. What is your major complaint about the town?

23. a. As plant manager, what new public investment projects in town are desirable?

    b. What projects could be implemented which involve relatively minor cost but would facilitate the operation of your firm?

24. If the plant burned down, would you suggest rebuilding it here or relocating it?

25. For your major needs obtained locally – labor, water, electricity, natural gas, etc. – how able and willing would you be to supply these yourself? (get them elsewhere) For instance, dig your own well, rather than rely on the town's water supply.

26. What percent of your cost of manufacturing do the following items represent:
    - –rent?
    - –water?
    - –electricity, gas, other power sources?
    - –transportation?
    - –labor?

27. If you were an EDA administrator, how would you evaluate the success of the EDA program in general? of the EDA program in this town?

28. a. What service needs are felt by types of people employed by you?

    b. What service needs are felt by the general population?

29. Are there segments of the population which should get more assistance form someone, and if so, what groups, what help, and from where?

30. If you were mayor and had $500,000, what would you spend it on? $1,000,000? $5,000,000?

E. Employment

31. a. What has your total payroll been, by year, from base year 1960?

    b. How do you see it growing in the next few years?

32. a. How much larger do you think the town should grow?

    b. Describe this growth in terms of manufacturing employment.

33. When someone leaves your firm, where does he usually go? To another manufacturing job in town? To another non-manufacturing job in town? Leaves town? For what kind of job? How far away does he go?

F. Initial Recruitment of Labor Force

34. When your company first decided to locate in ______________ , how did it go about evaluating the labor force?

    a. What was size in numbers?

        –total?

        –unemployed?

        –under-employed?

        –potential new entrants to labor force?

b. When you estimated these numbers, what geographical area were you counting in?

- –the city?
- –the county?
- –the multi-county area?
- –Why did you limit yourself to this area?
- –Do you rely on official figures or on private estimates?

c. What criteria did you use for judging whether the size of the potential labor force was adequate for your company's needs?

d. What were skill characteristics that you looked for?

- –literacy levels?
- –Other town characteristics, such as quality of schools or vocational training programs?

e. Did you conceive any particular skill group to be a constraining factor, such that the lack of the skill – regardless of whether it comprised only 10 or 20 men out of a potential employee force of 300 – would have prevented you locating in ______________________?

35. How did your company recruit its initial labor force once it located?

a. Through what agencies?

- –Were there any attempts to recruit labor from the rural areas outsite the town?
- –Form other counties?

b. What sort of processing techniques were used to determine an employee's

- –skills?
- –literacy?
- –experience?

c. What criteria were used for hiring?

- –Were there any minimal initial requirements for hiring?

d. How many applicants for employment fail to meet your requirements?

- How do they fail?
- Can you describe the typical person who fails?
- What training programs do you think would remedy this situation?

e. How would you evaluate the quality of the labor force you hired?

- skills?
- good work attitudes?

f. Would you describe the makeup of that labor force?

- What was the distribution of the labor force by
  - age?
  - sex?
  - race?
  - skills?

G. Experience with Labor Force

36. Where does your present labor force reside?

- In city?
- Do they commute from countryside?
- From other counties?

a. How many in each category?

b. Do they use

- their autos?
- transit?
- or do they walk?

c. To what extent have employees moved into town from the countryside since coming into your employ?

- From this county?
- From other counties?

37. Have your skill needs substantially changed since your firm opened?

a. How?

- What is the present skill composition of your employee labor force?
- How much has your total employment increased since you located here?

b. How did you adapt to this change in needs?

- –Hire new people?
- –Bring people in from outside the area?
- –Train initial labor force to meet new needs?

38. How would you evaluate your present employees?

- –Skills ample?
- –Attendance records?
- –Attitudes toward management?
- –Racial feelings toward Negro fellow workers, and vice versa?

a. What is turnover rate?

- –Where do those leaving go?
- –Where and how do you recruit replacements?
- –Any rivalry with other firms?

b. Any efforts toward unionization?

c. Major complaints?

H. Experience of Labor Force

39. a. What sorts of training programs do your employees participate in?

b. What kinds of on-the-job training does your firm offer?

- –How much do these opportunities cost your firm?
- –Do you consider the programs worthwhile from your firm's point of view?
- –Have you been able to fill your firm's new skill needs by in-house training?

c. How often do you employ graduates from the technical institute in __________?

- –Do you think your firm would benefit from (and support) such a center here in ________________?
- –How would your firm contribute to such a center?

40. How much job-upgrading occurs?

a. What is your company policy toward employees moving to positions of higher skill or sub-management?

–How many employees have done so?

b. How many employees have shifted to jobs of different skill levels from that for which they were first hired?

–When hired, did you expect such adaptability in the employee?
–What caused you to recognize this adaptability?

c. What sort of pay increases have your good employees enjoyed?

41. How stable is your employment?

–Seasonal?
–Cyclical?

a. What do your employees do during these periods?

b. Do you have to pay higher wages to compensate for employment insecurity?

I. Firm's Perceptions of Labor Market

42. If a firm considering location in ______________ asked you to evaluate the labor market it would confront, how would you describe that market to the outside firm?

a. How tight is the market?

–What is the geographical area from which the new firm can draw labor?
–How many presently unemployed workers are there that the firm could choose from?
–Could the firm divert workers from the outlying farms (full-or part-time)?

b. What are the attributes of the workers that would be available?
–skills?
–attitudes?
–age?
–sex?
–race?

43. If your firm was considering expansion, what would determine whether you increased operations and employment here in __________________?

--Or whether you look elsewhere?

44. Why did your firm choose to locate here in ____________ as opposed to ______________________________ ?

–Is there any rivalry for labor force?

45. What changes in the skill composition or total size of your labor force do you project will occur in the future?

–Is technology progressing in your business so that you might not need as much labor in the future?

J. Town's Character Changing with Growth

46. a. Would you want to make this town your permanent residence?

b. If not, what would have to happen to the town to change your mind?

47. How do you think your employees would answer the two preceding questions?

--your executives?
–your highly skilled labor?
–your low-skilled labor?

48. If community needs exist, to what extent do formal and informal groups of leaders get together to create solutions to these problems?

49. If the town should increase its growth rate significantly, what should the town's economic and social role become, taking into account nearby cities, large and small?

50. What will become of the smaller towns in the county?

51. Should a large retail center develop with shopping center, etc., or should a service sector develop -- insurance, banking, etc. – or should these needs be filled in larger cities?

52. In summary, what are the most important aspects of this town, regarding your plant's successful operation. Please rank these factors:

-Labor availability

-Community living conditions

-Growing market

-Existence of public services and utilities: water, power, transportation

-Market locally for your product?

53. Which of the above affects you negatively? (problem areas)

-Labor availability

-Community living conditions

-Growing market

-Existence of public services and utilities

-Market locally for your product

54. General Comments

FIRM: NAME: ______________________

TOWN: ______________________

PRODUCTS: ______________________

I. Current total employment. Put in numbers or rough percentages.

	White Male	Negro Male	White Female	Negro Female
Technical, Professional				
Managerial				
Clerical				
Sales				
Craftsmen, Foremen				
Operatives				
Unskilled				
Total	100%	100%	100%	100%

II. Original employment at time of location. Put in numbers or rough percentages.

	White Male	Negro Male	White Female	Negro Female
Technical, Professional				
Managerial				
Clerical				
Sales				
Craftsmen, Foremen				
Operatives				
Unskilled				
Total	100%	100%	100%	100%

III. Educational background of employees.

	White Male	Negro Male	White Female	Negro Female
1-6 yrs. schooling				
7-11 yrs. schooling				
High school degree				
Some college				
College degree				

IV. Age of employment force.

	White Male	Negro Male	White Female	Negro Female
17-24				
25-44				
Over 45				

The Firm's Attitudes Toward Training

This discussion is a supplement to Section II, which showed the need for more training of unskilled and semi-skilled potential workers.

Most of the firms interviewed which had established new branch plants planned from the beginning to train their new employees to meet their skill needs. All but two firms interviewed had a somewhat formal period of what the firm considered on-the-job training for new employees. The length of the period varied from four to twenty-six weeks, depending on the firm, but in most cases was about six weeks. Seventeen firms had formal training courses for upgrading employees to higher skilled jobs that would be vacated through normal turnover or would be created through foreseen expansion. The number of participants in such training programs varied greatly. One high wage firm employing over 600 boasted about its two-year program for upgrading production workers into mechanics and electricians. Yet there were only fifteen participants in each class, classes were chosen on the basis of minimum test scores but more importantly seniority, and a new class was begun only every six months. The program was the only formal training program within the plant. On the other hand, in a much less prosperous textile plant, over 600 employees (representing 20% of the labor force in that town) were currently engaged in formal training-upgrading programs. All firms but four believed in upgrading from within by training in order to fill high skill needs. All firms assumed the responsibility for retraining operatives whose machines were being replaced by better equipment. Few employees were dismissed as a result of automation; rather they were kept on the payroll, retrained, and generally maintained until normal turnover created vacancies which they could fill. Half of the firms encouraged and partly sponsored employees in night courses and evening training programs outside the firm.

The willingness on the other hand to work with local government-backed training programs—whether a state technical institute, Job Corps, Neighborhood Youth Corps, or Manpower Development and Training Act program—varied greatly from city to city. S.C. City had an excellent technical institute but only two of the firms, representing about 16% of the total work force of the interviewed firms, used the programs to any extent. S.C. Town is the site of a new institute, nearing completion. Many of its firms had sought out graduates of the institute in S.C. City, but had found that the graduates had long since been hired by S.C. City firms. S.C. firms generally cooperated with the institute and programs by telling the institute of their needs and providing equipment and instructors to the programs. The chief complaint by firms who refused to hire the institutes' graduates were that the graduates demanded much too high pay for inexperienced workers. There was limited interest by firms in Miss. Town for students in such programs, but then, programs were meager in the area. Excellent programs existed in Miss. City and a new institute was to be set up. Yet only one firm had shown any cooperation in working with the program. That firm, however, had enjoyed great success, getting more than 20% of its labor force from the programs. Employers in both Miss. Town and City were generally uncooperative, first not telling the programs what their skill needs and desires were, or giving them equipment or instructors, and then criticizing the programs for training workers in irrelevant skills and training them in those skills poorly. One employer called the workers who went into and came out of MDTA "the bottom of the barrel." Two large employers described the curriculum of the new technical institute as "designed for poets, not workers" and "far inferior to what the firms could do themselves." One manager noted that his plant preferred to train their workers in-house directly for the jobs they would be doing.

Training outside included too many unnecessary "frills" from the viewpoint of the firm. The other manager, who was also very active in civic and political affairs, argued that the MDTA programs in the area spent an average of $11,000 per trainee and that the new state technical institute being set up in the area would be spending $5,000 per trainee. "No private firm could afford to spend that much," the argument went on, "and indeed most of that government money is wasted due to inefficiency in administration and irrelevance in what they're teaching." He also argued that most of the government trainees left the area when they graduated, and thus the local taxpayer gained nothing.

Recruitment Practices Observed

This discussion of recruitment practices serves to shed light on the perception of a tight labor market which is discussed on pp. 37-39 in the text.

The patterns of recruiting new employees varied from state to state. In South Carolina, in both the city and town, firms preferred to rely on word-of-mouth. Applications were received on a designated day each week. There was no advertising. The news of application procedures and prospects for jobs would spread by word-of-mouth. Only one firm in South Carolina did extensive advertising, local and regional; the results were excellent at the local level but completely negative at the regional level. Only two firms in South Carolina claimed that they relied on the Employment Service to any great extent. Both firms were very large employers and both firms had patterns of apparent discrimination in their past employment practices. Surprisingly, E.S. was not relied on extensively even in the setting-up stages of many plants; only five plants in South Carolina–all large employers–acknowledged such use and two of those firms discontinued use. In Mississippi, firms recruited almost exclusively through the State Employment Service office. (E.S.). There, all but non-native firms relied almost exclusively on the Employment Service Office for finding workers. Non-native firms which had long been located in town–more than two decades–tended to use E.S. in Mississippi in contrast to the native firms with familiarity with the local populace. Interestingly, one national firm had branches located in two of the four cities studied; the South Carolina branch used word-of-mouth only while the older Mississippi branch used E.S. almost exclusively. In Mississippi, three firms used advertising, but none had significant results. In both states, firms which had been launched by community natives relied on word-of-mouth. The manager's knowledge of the population or his reputation in the community was sufficient to bring in job applicants whenever needed.

Several possible explanations of these recruiting patterns can be offered. First, it is clear that Employment Service offices often in the past were the mechanisms used by firms for maintaining their white-only practices. Two firms–both large employers–and each located in a different state, admitted that they had agreements with their local E.S. offices to refer whites only. One firm still admitted having a "gentleman's agreement," although the understanding had been loosened to: "White women only." The labor market had tightened too much for the firm to exclude Negro men so casually. In South Carolina there was no question that E.S. administrators had ended any *conscious* discriminatory practices. Some firms complained about the diligence of E.S. in promoting equal opportunity. In Mississippi it was clear that the discriminatory practices were continuing in one town while the situation of the other town was more ambiguous. However, the firms which rely on E.S. are not always aware of the discrimination. New firms with racially liberal managers adapt to the prevailing pattern of the existing firms in recruiting through E.S. but do not always understand the origin and consequences of that pattern.

A second explanation focuses on the image of the E.S. applicant which firms have succeeded in establishing in the community. Managers expressed why they spurned use of the local Employment Service: "No self-respecting laborer would apply through E.S." These sentiments were expressed by firms in South Carolina and–even more interestingly–by the firms in Mississippi which did not recruit through E.S. Such sentiments might readily explain why managers would not choose to use E.S. Unfortunately, however, the sentiments are partially self-fulfilling. Once the labor force realizes that firms react negatively to application through

E.S., the better workers, who are able to find jobs on their own, do so. When firms place orders for personnel, E.S. administrators have nobody to refer except precisely the low quality applicants who had initially created and would now reinforce management's image of E.S. Why the E.S. image should be so strongly negative in South Carolina and only selectively so in Mississippi is confusing, however. Once again, it appears possible that Mississippi firms found the Employment Service useful as a way of screening out Negroes from job applicants without directly compromising the company's image.

The different attitudes toward E.S. may simply reflect that word-of-mouth has been sufficient to meet the needs of the South Carolina firms. First, the word-of-mouth grapevine may function better in South Carolina than in Mississippi. Indeed, several Mississippi firm managers stressed the degree of social stratification and class awareness in the Delta, while several of their South Carolina peers made a strong point that society was very fluid in this area, with little stratification. The income distributions and histories of the areas would seem to give support to such perceptions. Also, racial animosity was clearly less in the South Carolina locations than in Mississippi. Where discrimination has existed for any long time, Negroes might well believe—as a result of past correct word-of-mouth information and as a result of experience—that they really don't have a chance of getting jobs. Once formed, such beliefs are highly resistant to change. Thus, news of job opportunities would then be passed by word-of-mouth, but discounted by Negroes as irrelevant. To the extent that the bulk of untapped labor in Mississippi is Negro and to the extent that Negroes there still believe—rightly or wrongly—that jobs will be denied them when they apply, the word-of-mouth recruitment system may not be feasible or effective in Mississippi.

Such recruitment practices in Mississippi have several consequences. First, firms utilize only to a small extent the rural areas; the firms make little effort to recruit in the rural hinterlands. The Employment Service approaches the hinterlands in a very haphazard way. Recent door-to-door surveys in Mississippi rural counties showed unemployment as high as 40%, even through official E.S. statistics showed unemployment to be only 5 to 9%.[1] As industrialization proceeds, the labor force remaining to be tapped for employment will increasingly be the population residing in the rural hinterlands; therefore, present recruitment methods may be less and less effective. Second, the Negro is at a disadvantage with present recruitment patterns. The social stratification, historical and current discrimination, his geographic isolation in the hinterlands, and his lack of transportation causes him to benefit far less than whites under both the word-of-mouth direct application method and the Employment Service placement method of recruitment. Such inequity was costless to firms as long as the huge labor surplus of whites persisted. That surplus has almost disappeared, however. In the future, the Negro population will increasingly be the source for employers of new labor.

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[1] White, Rudolf, op. cit.

Other sources for recruiting workers were available to firms, in addition to E.S. and word-of-mouth. It is remarkable that they are seldom used. For example, the schools each year supply a large number of well-educated workers to the labor force. Yet only in S.C. Town did most firms systematically recruit at the schools and work with principals and counselors on job placement.[1] S. C. City and Miss. City had technical training institutes, but in Miss. City, only one firm stated that it used such institutes for personnel recruitment.[2] Generally, firms not only did not recruit at the institutes, but also failed to work with the institutes so that the skills taught might have some relevance to the firm's needs. All of the cities had Federal Manpower Development and Training Act (MDTA) programs, but only two employers expressed any involvement or interest in the programs. Only one place studied had a college–Miss. Town. Only one firm in that town recruited at the college.[3]

Still another source of labor, which firms discreetly like to overlook in discussions, is the labor force of other firms. The extent to which "pirating" is practiced is a measure of how open and competitive the economy is, and how free the community is from control by single firms. In all towns, the flow of employees from farms, retail and service enterprises, and small firms to large industrial firms was sizable (and usually one-way only, towards industry). Recruitment from other firms' work forces represented a far smaller source of employees for new firms.

As might be expected, since the number of industrial employers was larger and thus an impedance to monopsonist collaboration, pirating appeared to be more commonly practiced and accepted in the Cities. New firms openly admitted that they were prepared to buy the labor force they wanted, and that it was a matter of indifference whether existing firms competed on wage rates. Firms which had been established longer readily admitted that they had raised their wage rates to try to keep their work forces. While farmers, local government and retail merchants griped about the way new firms stole their employees, industrial firms in the cities appeared to have adjusted to the competition and did not express any resentment.

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[1] In S.C. City, no firms cited any regularized contact with the schools. In Miss. Town, only one firm had any regular contact with schools, and that firm–the largest in the town–had just begun the contact that year, more than 15 years after coming to town. In Miss. City, only two firms had such contact. The report at the Chamber of Commerce meeting by one of those firms–a very large employer which had been in the town for decades–that its school contacts had not been successful was cited by three other new firms as a major factor in their decision not to make the effort. Interestingly, the firm which made the report claimed its contacts were successful in our private interview. The fact that the firm continued the contacts indicates that recruitment through the schools could not have been completely fruitless. The firm's report at the Chamber meeting may have been an effort to deter other firms from tapping a rich vein of labor supply.

[2] Curiously, that firm in Miss. City had high skill needs and yet reported no difficulties in finding skilled labor, due to the institute. Its use of the institute freed it from many of the recruitment problems of rival firms in its community.

The general complaint of firms concerning graduates of technical institutes was that the inexperienced graduates demanded far too high a starting wage. Their demands would have threatened the firm's whole wage structure. Whether such demands indicate the naive optimism of the graduates or a very low wage structure of the firms is an open question.

[3] But that firm made the college its principle source of labor. Since the firm employed some 600 machinists at minimum wage rates, and since more than two thirds of its labor force were college students, the relationship was important to the town's economy. The firm's manager stated that his firm would have failed during its first year of operation in Miss. Town, had it not discovered the college as a pool of labor. The college, on the other hand, more than doubled in size within four years and had made profitable use of the firm's presence. According to the manager, the college included jobs at the plant as part of the regular scholarship-loan package it offered students. Personnel recruiters from the firm manned desks at the end of the registration line as students signed up for classes at the beginning of each semester.

The legitimacy of "pirating" in the eyes of local industry was much less strongly established in the Towns. Firms in S.C. Town readily admitted that they notified fellow employers of any currently employed worker who approached them about a better job. According to plant managers, if the current employer could offer the applicant a better job than he currently had, or than the approached firm would offer, the approached firm would refer the applicant back to his employer (where presumably he would move into the better job). If the current employer could not offer a better job, the worker would be hired. There were widespread reports among workers and among local government officials that firms were very careful in respecting each other's employee force and in disciplining workers who tried to upgrade themselves by jumping across firms. Only in recent months with the relative tightening of the labor market as firms expanded and as a new high-skilled employer arrived in town, had the attitude toward pirating become more tolerant. Among the three major firms in Miss. Town, however, there was no sign of flexibility or tolerance. The control of the town by the largest, earliest firm had resulted in agreements by new firms not to raid labor forces, as a condition for their being allowed to locate.

APPENDIX II

The following Tables, AII-1 through AII-7, compare 1960 labor force estimates from local offices of the South Carolina and Mississippi Employment Security Commissions to labor force estimates made by applying national participation rates to age groups of the population studied. The reasons for, and method used in this calculation are explained in Section II, pages 55-58, of the text. No local employment data was available for S.C. Town.

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Comparisons of Estimated Labor Force (Full Potential) in the Study Areas To Local Employment Service Labor Force Estimates for 1960

Table AII-1

Miss. Town

	MALES			FEMALES		
Age	ELF 1960	LF 1960	X^2*	ELF 1960	LF 1960	X^2
15-24	568	379	(62.9)	378	322	(8.3)
25-34	544	497	(4.1)	219	284	19.3
35-44	518	509	(.2)	276	432	88.2
45-64	711	665	(3.0)	405	508	26.2
65+	99	128	8.5	43	66	12.3
TOTAL	2440	2178	(28.1)	1321	1612	(64.1)

Table AII-2

Miss. Town County

	MALES			FEMALES		
Age	ELF 1960	LF 1960	X^2	ELF 1960	LF 1960	X^2
15-24	2699	2328	(51.0)	1719	1124	(205.9)
25-34	2220	1901	(45.8)	909	914	(.03)
35-44	2104	2062	(.8)	1230	1184	(1.7)
45-64	4000	3947	(.7)	2128	1903	(23.8)
65+	748	824	7.7	268	334	16.3
TOTAL	11,771	11,062	(42.7)	6254	5459	(101.1)

*$X^2 = \frac{(ELF - LF)^2}{ELF}$, result in parentheses if ELF>LF

ELF: Estimated Labor Force

LF: Local Estimate of Labor Force

Sources: Local Estimated Labor Force from Mississippi Employment Security Commission, Department of Research and Statistics; Population data from 1960 U.S. CENSUS OF POPULATION, MISSISSIPPI, GENERAL CHARACTERISTICS, U.S. Dept. of Commerce, 1961

Comparisons of Estimated Labor Force (Full Potential) in the Study Areas To Local Employment Service Labor Force Estimates for 1960

Table AII-3

Miss. City

	MALES			FEMALES		
Age	ELF 1960	LF 1960	X^2*	ELF 1960	LF 1960	X^2
15-24	1713	1701	(.08)	1173	1214	1.4
25-34	2498	2598	4.0	1043	1576	272.4
35-44	2106	1977	7.9	1056	1486	175.1
45-64	2931	2862	(1.6)	1685	2000	58.9
65+	398	393	(.06)	186	265	33.5
TOTAL	9646	9531	(1.4)	5143	6541	380.0

Table AII-4

Miss. City County

	MALES			FEMALES		
Age	ELF 1960	LF 1960	X^2*	ELF 1960	LF 1960	X^2
15-24	3598	3785	9.7	2357	2015	49.6
25-34	4176	4333	5.9	1751	2318	183.6
35-44	4667	3607	(240.8)	1939	2405	112.0
45-64	5518	5427	(1.5)	3033	3337	30.5
65+	842	895	3.3	343	439	26.9
TOTAL	18,801	18,047	(30.2)	9423	10,514	126.3

*$X^2 = \frac{(ELF - LF)^2}{ELF}$, result in parentheses if ELF $>$ LF

ELF: Estimated Labor Force

LF: Local Estimate of Labor Force

Sources: Local Estimated Labor Force from Mississippi Employment Security Commission, Department of Research and Statistics; Population data from U.S. CENSUS OF POPULATION, MISSISSIPPI, GENERAL CHARACTERISTICS, U.S. Dept. of Commerce, 1961

Comparisons of Estimated Labor Force (Full Potential) in the Study Areas To Local Employment Service Labor Force Estimates for 1960

Table AII-5

S.C. Town County

	MALES			FEMALES		
Age	ELF 1960	LF 1960	X^2*	ELF 1960	LF 1960	X^2
15-24	1805	1871	2.4	1103	846	(59.9)
25-34	1667	1550	(8.2)	692	903	64.3
35-44	1920	1918	(.002)	887	957	4.6
45-64	2482	2282	(16.1)	1318	1181	(14.2)
65+	341	320	(1.3)	137	103	(8.4)
TOTAL	8215	7941	(9.1)	4137	3990	(5.2)

*$X^2 = \frac{(ELF - LF)^2}{ELF}$, result in parentheses if ELF > LF

ELF: Estimated Labor Force

LF: Local Estimate of Labor Force

Sources: Local Estimated Labor Force from South Carolina Employment Security Commission, Department of Research and Statistics; Population data from U.S. CENSUS OF POPULATION, SOUTH CAROLINA, GENERAL CHARACTERISTICS, U.S. Dept. of Commerce, 1961

Comparisons of Estimated Labor Force (Full Potential) in the Study Areas To Local Employment Service Labor Force Estimates for 1960

Table AII-6

S.C. City

	MALES			FEMALES		
Age	ELF 1960	LF 1960	X^{2*}	ELF 1960	LF 1960	X^2
15-24	1101	941	(23.3)	725	787	5.3
25-34	1350	1287	(2.9)	611	952	190.3
35-44	1626	1600	(.4)	818	1041	60.8
45-64	1877	1826	(1.4)	1096	1206	4.5
65+	216	287	23.3	117	147	7.7
TOTAL	6170	5941	(8.5)	3367	4133	174.3

Table AII-7

S.C. City County

	MALES			FEMALES		
Age	ELF 1960	LF 1960	X^2	ELF 1960	LF 1960	X^2
15-24	4221	3732	(56.7)	2796	2032	(208.8)
25-34	4502	4232	(8.0)	1905	2349	103.4
35-44	4885	4799	(1.5)	2407	2424	.12
45-64	5828	5490	(19.6)	3152	2689	(68.0)
65+	674	661	(.3)	299	241	(11.3)
TOTAL	20,110	18,914	(71.1)	10,559	9735	(64.3)

$*X^2 = \frac{(ELF - LF)^2}{ELF}$, result in parentheses if $ELF > LF$

ELF: Estimated Labor Force

LF: Local Estimate of Labor Force

Sources: Local Estimated Labor Force from South Carolina Employment Security Commission, Department of Research and Statistics; Population data from U.S. CENSUS OF POPULATION, SOUTH CAROLINA, GENERAL CHARACTERISTICS, U.S. Dept. of Commerce, 1961

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